Recipes for Change: A Menu of Property Tax Alternatives

A Report of the Interim Property Tax Committee to the 56th Legislature

November 1998

Prepared by
Montana Legislative Services Division
State Capitol, Room 138
Helena, Montana 59620-1706

Legislative Services Division

(406) 444-3064
FAX: (406) 444-3036
INTERNET (Home Page): <http://www.mt.gov/leg/branch/branch.htm>

RECIPES FOR CHANGE: A MENU OF PROPERTY TAX ALTERNATIVES

November 1998

Prepared on Behalf of the Interim Property Tax Committee

Senator Barry "Spook" Stang, Presiding Officer
Representative Robert Story, Jr., Vice Presiding Officer

Senator Gerry Devlin
Senator Mike Sprague
Senator Mack Cole
Senator Steve Doherty
Senator Linda Nelson

Representative Dan Harrington
Representative Emily Swanson
Representative Alvin Ellis, Jr.
Representative Jon Ellingson
Representative Lila V. Taylor

COMMITTEE STAFF

David D. Bohyer, Research Director
Lee B. Heiman, Staff Attorney
Gordon Higgins, Research Analyst
Jeff Martin, Research Analyst
Jim Standaert, Senior Fiscal Analyst
Donna Grace, Secretary

Published by:

Montana Legislative Council
Representative Larry Hal Grinde, Presiding Officer

Montana Legislative Services Division
Robert B. Person, Executive Director
David D. Bohyer, Director, Office of Research and Policy Analysis
Gregory J. Petesch, Director, Legal Services Office

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PROLOGUE

Between the final meeting of the Interim Property Tax Committee on September 14, 1998, and publication of this report, a general election was held on Tuesday, November 3, 1998. One result of the election was the adoption by the electorate of Constitutional Initiative No. 75 (CI-75). Although the implications of CI-75 are not fully known or understood, they promise to be significant.

Very briefly, CI-75 requires a public vote on many, perhaps most, increases in taxes and fees. It also requires and precludes a variety of other things by making other substantive changes to the state Constitution. Some of these nuances include:

- A supermajority of the Legislature is required to increase taxes or fees under emergency situations.
- Elected officials are subject to personal liability if the provisions of CI-75 are violated.
- With respect to a tax or fee increase "referred" to the electorate by the Legislature, the Governor must approve each measure before the public may vote. Without gubernatorial approval, a tax or fee referendum cannot be forwarded to the electorate.

Consequently, when the 56th Montana Legislature convenes on January 4, 1999, its members will not only face the myriad complexities of tax policy and the practical application of tax policy, they will also have to confront the varied, complicated, and even conflicting requirements and proscriptions of the Montana Constitution in its "post CI-75" form.

INTRODUCTION AND ACKNOWLEDGMENTS

As the 21st century nears, Montanans persevere with a property tax system that has its roots in the 19th century. In itself, that reality is neither good nor bad; it is simply a fact.

It is also a fact that the property tax is the tax that most Americans, including most Montanans, love to hate. Year after year, the property tax is identified as the most despised excise imposed by government. At the same time, the property tax is the most stable revenue source upon which governments, especially local governments and schools, rely to support the programs and services ostensibly demanded by taxpayers.

The foundation of the property tax system--market valuation--is a tried and true practice, historically recommended by economists, guarded by statisticians, and until recently, generally supported by elected policymakers and the people they represent. However, with rapid changes, particularly increases, in market value, the traditional system has come under increasing criticism, even attack, and support has begun to deteriorate.

Montanans, like the citizens of many states, have encountered the good fortune of significant appreciation in property values, especially noticeable in the past two decades for home owners. Because of that good economic fortune, property taxpayers have understandably feared property taxes increasing at rates that many perceived as simply too high. Between 1993 and 1997, for example, the market value of residential property increased by an average of 43%; for commercial property the rate was "only" 25%. Given those rates of growth, many Montanans feared a direct translation of increasing values into increasing property taxes. And although history proves that property taxes have changed much more slowly, at least on average, than have market values, the fears persist.

Thus, the 55th Legislature confronted the difficult and multifaceted dilemma of what to do with property taxes. Through compromise and somewhat in an act of desperation, Senate Bill No. 195 was passed and approved as a temporary measure intended to virtually freeze property taxes for most home owners and businesses at 1996 levels.

The Interim Property Tax Committee was also born of the legislation, commissioned quixotically to ". . . revise, reform, or replace the property tax system". And so the journey began.

Before proceeding further, the Interim Property Tax Committee wishes to acknowledge a number of people, without whose input and assistance the Committee's efforts would have been less beneficial and rewarding. First among those deserving recognition and commendation are the several hundred citizens who braved the dark of night, inclement weather and roads, summer heat and winter cold, and any variety of other obstacles to attend at least one public hearing and make their respective voices heard. They were courageous in many ways and deserve the Committee's thanks and the public's appreciation.

Also worthy of acknowledgment are staff of the Montana Department of Revenue. From among the Department's ranks, scores of mostly anonymous county appraisal staff assisted the Committee in understanding topics ranging from appraisal techniques for different types of property to historical changes in the taxable valuation of specific jurisdictions. Staff within the Department's Office of Information and Research were also particularly helpful, especially Judy Paynter and Brad Simshaw. Randy Wilke, Gene Walborn, and Mary Whittinghill within the Property Assessment Division also provided valuable information, insights, and perspective.

To all the other people deserving of recognition here but not named individually or specifically, the Committee also extends its thanks.

Finally, the Committee conducted its work under the premise that the Legislature and local legislative bodies were formally authorized to set tax policy within their respective jurisdictions. With the adoption of CI-75 at the November 3, 1998, election, legislative authority over tax policy is no longer the case, if it ever was. So, although the full consequences of CI-75 are as yet unknown, an initial result is that the options outlined in the menu of alternatives must not only be considered by the Legislature and the Governor, but ultimately by the electorate as well. Recognizing the sizable expansion of the voting public's responsibility, the Committee's goal of increasing public education and understanding of Montana's tax system should probably no longer be viewed as merely a goal, but as an urgent necessity.

Senator Barry "Spook" Stang, Chairman

For every complex problem, there is a simple solution.
And it's wrong!

H.L. Mencken

ENABLING LEGISLATION

Sec. 10, Ch. 463, Laws of 1997

(Senate Bill No. 195)

Section 10. Property tax committee. (1) There is an interim property tax committee. The committee consists of 12 members. The speaker of the house shall appoint six house members, three from each party, and the senate committee on committees shall appoint six senate members, three from each party.

(2) The committee may study all aspects of the state property tax system and shall prepare a menu of alternatives to revise, reform, or replace the property tax system. The alternatives should include methods that remove volatility from the valuation of property. The alternative methods should include options designed to supplement or replace the current valuation system in order to prevent the exclusive reliance on market value.

(3) In order to provide a wide-ranging series of options for consideration, each individual member of the committee may pursue proposals independently and receive staff assistance on the proposals. The committee may discuss and make suggestions on all proposals. A vote of one-fourth of the members may include a proposal on the menu of alternatives. The menu of alternatives must be presented to the 56th legislature.

(4) The committee may solicit the advice of appropriate persons and entities as the committee considers necessary.

(5) The legislative branch shall provide staff support to the committee. The committee may contract for services as the committee considers necessary.

EXECUTIVE SUMMARY
AND
MENU OF ALTERNATIVES

The Interim Property Tax Committee was commissioned to study all aspects of Montana's property tax system and was charged to ". . . prepare a menu of alternatives to revise, reform, or replace the property tax system". This summary constitutes the Committee's response to its charge by describing the several alternatives forwarded by the Committee for additional consideration by the 56th Montana Legislature.

The Committee specifically and actively agreed to avoid attaching or even indicating any degree of preference or priority to the alternatives. The members also resisted attaching arguments for and against the alternatives. Consequently, the alternatives are merely described and grouped into those that are casually called "minor options" and those called "major options".

While the descriptions provided here provide only an outline of each alternative, draft legislation prepared at the Committee's request to more definitively delineate the alternative is included in Appendix A. It should be noted, however, that although the draft legislation was prepared for and considered by the Committee, only the concept or philosophy underpinning the drafts was endorsed by at least three members of the Committee as required in Senate Bill No. 195 (SB 195). Stated another way, none of the draft bills was specifically sanctioned by the Committee and, if introduced, any of the alternatives may be revised according to the wishes of the principal sponsor of the alternative.

Respectfully, the Interim Property Tax Committee submits for further consideration, the following menu of alternatives.

MINOR OPTIONS

Local Option Sales Tax Alternative

An option for reducing property taxes would be available in local jurisdictions through the enactment of a local option sales tax.

In several jurisdictions there is currently imposed a "resort tax" that is a sales tax on goods and services consumed primarily by tourists. Reportedly, these jurisdictions have seen or at least embarked upon marked improvement in local infrastructure, paid for by-and-large by resort tax revenue. (The communities of West Yellowstone, Red Lodge, Whitefish, and Virginia City have enacted resort taxes. The recreational area at Big Sky Ski and Summer Resort has also adopted a resort area tax for the fairly large, unincorporated area comprising the Big Sky

ski area and its environs. St. Regis has also adopted a resort area tax encompassing an unincorporated area.)

This option would allow any municipality or county to enact a local option sales tax much in the same form and for the same purposes as the resort tax is currently an option for a few, smaller communities and a few unincorporated areas. The local option sales tax alternative includes a requirement for a favorable vote by the local electorate.

Highlights of the local option sales tax alternative include:

- The maximum rate of local option tax is capped at 3%.
- At least 5% of local option tax revenue must be used for reduction of local property taxes.
- The tax may be applied to goods and services sold by the following establishments:
  - hotels, motels, and other lodging or camping facilities;
  - restaurants, fast food stores, and other food service establishments;
  - taverns, bars, night clubs, lounges, and other public establishments that serve beer, wine, liquor, or other alcoholic beverages by the drink;
  - destination ski resorts and other destination recreational facilities; and
  - establishments that sell luxuries, loosely defined as any gift item, luxury item, or other item normally sold to the public or to transient visitors or tourists. "Luxuries" do not include food purchased unprepared or unserved, medicine, medical supplies and services, appliances, hardware supplies and tools, or any necessities of life.

Circuit Breaker Enhancement Alternative

Montana has at least three different methods by which lower-income home owners and elderly home owners may reduce their property tax burdens.

A direct reduction in property taxes is available for all lower-income home owners under 15-6-134, MCA.

- For tax year 1998, the maximum income thresholds will be just under $17,000 for singles and just over $22,640 for marrieds or heads of households. The proposal would increase the thresholds to at least $20,000 for singles and to at least $25,000 for marrieds or heads of households.
- The minimum reduction would remain at 30% of property taxes assessed, and the maximum reduction would remain at 80% of taxes assessed.

An indirect reduction in property taxes through an income tax credit mechanism is available to lower-income elderly home owners and renters under 15-30-171, et seq., MCA.

- For tax year 1998, the maximum income threshold is $12,000 of "household income" (which means income from all sources received by everyone in the "household" less $6,300).

- The maximum credit available is limited to $1,000.

Under the alternative considered by the Committee, "social security" and "railroad retirement" income would be excludable from "household income" and the maximum available credit would be increased to $1,500.

Finally, there is a type of reverse annuity mortgage available for certain lower-income, elderly home owners through the Montana Department of Commerce. Employing the reverse annuity mortgage allows low-income seniors to use the equity in their home to pay for normal living expenses, including property taxes on the home. Without specifically recommending any revisions to the reverse annuity mortgage program, the Committee recommended that the Department of Revenue and the Department of Commerce do more to make eligible taxpayers aware of this program.

Business Equipment Exemption

The "business equipment" tax applies generally to the personal property owned by commercial enterprises in Montana. Currently, property taxes on business equipment are determined by multiplying the market value of property (typically determined through national appraisal guides or through depreciated value techniques) by a 6% statutory tax rate. The resulting "taxable value" is multiplied again by the jurisdictional mill levy.

For example, business equipment having a *market value* of $100,000 would have a *taxable value* of $6,000 that would be subjected to the jurisdictional mill levy, e.g., 420 mills, resulting in a tax bill of $2,520. Measured another way, the effective tax rate (i.e., taxes paid divided by the market value of the property) on the equipment in this example would be 2.52%

Under the proposed alternative, the first $25,000 or less of market value of Class Eight business equipment would be exempt from property taxation, thereby relieving a substantial number of small, main street businesses from the business equipment tax. Depending on the amount of business equipment owned by a business or industrial enterprise, effects of the exemption to individual property owners would range from absolute exemption to minimal impact.

Under this option and using the figures from the above example, the $100,000 of business equipment would be reduced by $25,000, leaving $75,000 in market value. That amount would be multiplied by the 6% rate, resulting in a taxable value of $4,500. Applying the jurisdictional mill levy of 420 mills concludes in a tax bill of $1,890. The resulting effective tax rate of 1.89% compared to the prior 2.52% rate is a full 25% lower.

Comparatively, an enterprise with $1 million in business equipment would also receive the $25,000 exemption. Currently, by applying the same assumptions used previously, this entity would have business equipment with a *taxable value* of $60,000 (the $1 million times the 6% rate). The $60,000 in taxable value would be multiplied by the local mill levy, 420 mills in this

example, resulting in a tax bill of $25,200. Thus the current effective tax rate would again be 2.52%.

Under the proposed $25,000 exemption, the $1 million in business equipment would receive the $25,000 exemption, thus leaving $975,000 in market value. That market value multiplied by the 6% statutory rate results in a taxable value of $58,500. Following through by applying the mill levy of 420 mills, the tax bill would be $24,570 for an effective tax rate of 2.457%, a reduction of 2.5%

Any enterprise having business equipment with a total market value of $25,000 or less would have a 0% effective tax rate and a 100% reduction from current practice.

MAJOR OPTIONS

Acquisition Value Alternative

California, in 1978, was the first state to adopt "acquisition value" as the basis for the taxation of property. Since then, Florida and Michigan, at least, have adopted some form of "acquisition value" for property tax purposes.

Under the "acquisition value" approach, real property, such as a home, a business, or an industrial plant, is valued for tax purposes at its market value as of some base year or, if the property has sold since the "base year", the value at which it was acquired by a new owner; thus, the term "acquisition value".

In states that have adopted some form of acquisition value for property tax purposes, there is commonly some annual, nominal change allowed in the base value. For example, in California, the annual rate of change in base value for tax purposes is inflation (measured by the consumer price index or CPI) or 2%, whichever is less. In Florida, the maximum change is the lesser of 3% or CPI. In either state, the "assessed" value of property, i.e., the "base value" calibrated by the annual adjustment factor, cannot exceed the "market" value of the property.

While an acquisition valuation system can result in similar property within the same jurisdiction being taxed at highly different levels, the literature indicates that the method has ample support among taxpayers within jurisdictions that have adopted the policy.

Highlights of this proposal include:

- The alternative forwarded by the Committee would apply the acquisition value method to residential, commercial, and industrial real estate and improvements, but not to agricultural land.
- The "assessed value" would be adjusted annually at the lesser of CPI inflation or 1%.
- At implementation, the "base value" would be "assessed value" for tax (calendar) year 1993 unless:

- the property was bought or sold after January 1, 1993. If bought or sold after January 1, 1993, the base value would be the price at which the new owner acquired the property.
- improvements were made to the property. All improvements would be valued at their market value as of the date of the improvement. The value of the improvements would be assessed, in each year, separately from the base value of the property and from other improvements.
- the use of the property changed. For example, if residential property was converted to commercial property after January 1, 1993, the property would be appraised at its value as commercial property as of the date of the change in use.

By the time this alternative could be implemented, January 1, 2001, at the earliest, the 1993 "base values" would all have been adjusted by 1% for each year 1994 through 2000, inclusive. Thus, a property with a "base value" of $100,000 in 1993 would have an assessed value of $108,285 for tax year 2001.

Another significant highlight of this alternative is that commercial and residential property are initially treated the same *vis-a-vis* base value and annual adjustments. However, if a commercial property has not been bought or sold by January 1, 2013, the Department of Revenue is required to appraise the value of the property at the then-current market value and record the newly determined value as the "assessed value" for property tax purposes. This process for revaluing commercial property would apply to any commercial property that had not been bought or sold within the most recent 20-year period, i.e., 1993-2013; 1994-2014; 1998-2018.

In contrast, a residential property with a 1993 "base year" value would retain the 1993 value (adjusted) until the property was bought or sold or otherwise improved.

Combination Alternative

An alternative combining several previously considered options was considered and forwarded by the Committee. Referred to as the "combination alternative", this option, as considered by the Committee, would:

- implement for 1999 the most recent (1996) market valuations for Class Four property, basically, homes and businesses;
- exempt from property taxation 25% of the first $100,000 or less of market value of a single-family residence occupied by the home owner for at least 8 months per year;
- reduce the statewide equalization levy for K-12 school equalization from 40 mills to 37 mills;
- reduce the statutory nominal tax rate on homes and businesses from 3.816% (1998) to 3.25% (1999 and thereafter).

This alternative focuses on providing substantial and immediate property tax relief to home owners but could also provide significant relief to most commercial property as well. There would be no reduction in the amount of property taxes collected in the aggregate. Instead, taxes currently paid by home owners would be reduced and shifted to commercial, industrial, utility, and other taxpayers. It is implementable immediately; i.e., for tax year 1999.

The shifting that would occur under this option would accrue to different types (classes) of property in different ways. Home owners would gain the most relief, and commercial property could also gain significantly. Utility property, business equipment, and centrally assessed transportation property (railroads, airlines, etc.) would most likely bear a somewhat higher proportion of the burden than they now do.

Different geographical areas of the state would also fare differently, some areas getting more (or less) relief than other areas, and some types of property in some areas benefiting more (or less) than the same types of property in other areas.

As proposed, this alternative would significantly mitigate the effects of the 1996 statewide reappraisal for most home owners in the state. However, like any solution to be applied statewide, individual home owners would likely experience some change in their actual property tax liabilities.

Comprehensive Reform Alternative

An option for extensively revising property taxes has been forwarded by the Committee for consideration by the 56th Legislature.

As proposed, a 4% general, retail sales tax[1] would be imposed statewide and the revenue from the sales tax would be used to:

- reduce property taxes by about $500 million annually, which taxes are currently committed primarily to K-12 schools and the university system by:
  - exempting business equipment and livestock from property taxation (about $80 million); and
  - replacing approximately $400 million of property-tax-funded K-12 school costs with a like amount of state funding for K-12;
- provide sales tax rebates to certain (lower-income) individual income taxpayers;
- reduce the flat tax rate on automobiles and light trucks from 2% to 1.5% of value (about $20 million annually); and
- replace certain other revenue from eliminated property taxes.

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1 Article VIII, section 16, of the Montana Constitution limits the rate of a statewide, general retail sales tax to a maximum of 4%.

The proposal would also:

- provide home owners an exemption from property taxation of 65% of the first $50,000 or less of market value of an owner-occupied residence;
- simplify the property tax system by eliminating the various statutory, nominal rates applied to the various classes of property for tax purposes and assessing all property subject to property taxation at 100% of value for tax purposes;
- limit future increases in property taxes;
- revise county classifications and debt limits for budgeting purposes; and
- repeal the remaining provisions of Initiative No. 105.

While the Legislature and the Governor could pass and approve this alternative, conceivably at least, there is general agreement among policymakers that such a far-reaching proposal must be referred to the public.[2] Consequently, if the electorate approved the measure, it would be unlikely that this alternative could be implemented before January 1, 2000; more likely, implementation would be in mid-2000 or later.

[2] Under CI-75, now Article VIII, section 17, of the Montana Constitution, the alternative would have to be segregated and referred to the electorate.

COMMITTEE ACTIVITIES

INTRODUCTION

The Interim Property Tax Committee (Committee) was established by the passage and approval of Senate Bill No. 195 of the 55th Legislature (Ch. 463, L. 1997). A 12-member committee, it was comprised of 6 members of the Senate and 6 members of the House of Representatives, each evenly divided between Republicans and Democrats. The members represented most areas of the state and a range of economic, demographic, political, and other interests.

Among the Committee's goals were to improve the members' individual knowledge and understanding of Montana's system of taxation and, to the extent possible, disseminate information regarding the state's tax system to Montanans. A related objective was to raise the issue of property tax reform to the highest possible level of consideration among the state's citizens.

Thus, it was with those goals and others that the members of the Committee undertook their charge. Over the course of the 1997-98 legislative interim, the Committee held some 20 meetings, each of which was, in part, a public hearing. The Committee met in communities large and small and in all regions of the state. The members reviewed and considered information gathered, analyzed, distilled, and presented by Montana legislative staff and staff of the Department of Revenue. Experts in property taxation and taxation systems in other states were also consulted. Perhaps foremost, the Committee solicited opinions, ideas, and recommendations from all Montanans. Fortunately for the process, home owners, business entrepreneurs, farmers and ranchers, housewives, teachers, public officials, laborers, professionals, full-time and part-time residents, retailers, manufacturers, industrialists, managers, retirees, and others responded by sharing their ideas with the Committee.

PUBLIC HEARINGS AND TESTIMONY

Beginning with the first meeting of the Committee, it quickly became clear that many, perhaps the majority of citizens testifying, felt that property taxes were too high, had been increasing rapidly, and were likely to continue to increase. Over the course of the interim, comments from the public followed a few broad themes:[3]

- property taxes in Montana, particularly on homes, are higher than elsewhere;
- residential property taxes have risen faster than inflation and incomes;

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[3] Citizens' comments were not necessarily supported by any actual evidence, but the passion with which the sentiments were expressed ran high in virtually every community.

- high property taxes are an impediment to economic development;
- all taxes, but particularly property taxes (and especially those on homes), are too high;
- local governments and schools cannot, in many cases, provide adequate services with the resources available;
- the simple solution is for government to heed the pleas of the citizens and just reduce taxes; and
- the solution is not simple, but policymakers should move ahead knowing that they have the support and best wishes of the citizens.

There were other comments made frequently enough to command attention, but that did not rise to the level of themes. In general terms, these problem-identification types of comments from taxpayers included:

- "we" are spending too much on schools;
- some people are not paying their fair share of taxes;
- a minority of people are paying the majority of taxes;
- tourists should bear more of the tax burden (directly);
- residential taxpayers are at the breaking point;
- businesses can't be expected to pay any more in taxes;
- agriculture is overburdened by taxes;
- people on fixed incomes already pay too much and can't pay more;
- young families have other expenses and can't bear the tax burden of owning a home;
- utilities, particularly electric and telephone service providers, bear too high a tax burden to compete in a deregulated environment;
- the natural resource industry pays a disproportionate amount of taxes;
- taxes on business equipment are too high and are the principal reason that economic development in Montana lags behind other states;
- "averages" are fine, but every community visited by the Committee is different (from the average) and, thus, the averages don't reflect the real situation experienced in any community;
- the assessed valuations determined by the Department of Revenue are too high (including: way too high; unrealistic; ridiculous; absurd; and nonsense); and
- property values are being driven up by nonresidents and out-of-staters.

Some different attitudes and perspectives were expressed by public officials, particularly elected county and municipal officers. Sentiments from this group did not necessarily contradict comments made by the taxpayers, but did provide different points of view and included, in general:

- elected local officials believe they are better able to assess local needs than state legislators are;

- citizens hold elected local officials accountable for changes, particularly increases, in property taxes. Consequently, local officials are very cautious and circumspect when contemplating budget matters, particularly increasing taxes.
- local governments cannot provide the services expected by their citizens;
- unlike schools, local governments have had to operate since 1987 under the restrictions of Initiative No. 105 (I-105); and
- the current budgets of many local governments are virtually the same now as they were in 1987, but inflation has not been eliminated and demands for services, including mandates, continue to rise.

Whenever the discussion and comments focused on solutions, some generalities consistently emerged from taxpayers and citizens, including:

- reduce taxes;
- everyone should pay their fair share;
- tourists should pay their fair share;
- senior citizens on fixed incomes should be protected;
- alternative sources of funding, other than property taxes, need to be available for schools and for county and municipal governments;
- a statewide, general retail sales tax is the best solution;
- a sales tax has been repeatedly rejected by Montanans, they simply don't want one, don't waste your time;
- citizens would accept a sales tax, provided they have assurances that property taxes will be permanently reduced and other taxes won't increase in the future;
- citizens will not accept a sales tax until either the income tax or the property tax is eliminated;
- property taxes should be eliminated and replaced with a sales tax;
- homes should be exempt from property taxes or at least a person should not be subject to losing their home for delinquent property taxes; and
- economic activity will be spurred if taxes on businesses, particularly on business equipment, are reduced.

Regarding solutions, elected local officials again provided different if not additional insights and recommendations, including:

- one-size-fits-all solutions concocted in Helena usually do little to solve the specific problems of cities or counties;
- one-size-fits-all solutions devised in Helena sometimes exacerbate the specific problems of cities and counties;
- local governments need to be able to tap into sources of revenue other than property taxes;

- most County Commissioners strongly supported the property tax/sales tax reform proposal offered in Senate Bill No. 258 during the 1997 Session;
- most County Commissioners support enacting a statewide, general retail sales tax and using the revenue to replace property taxes, particularly for financing schools;
- local jurisdictions should have the authority to create solutions that will work locally;
- the state should shoulder a greater portion of the costs of funding education, without relying on property taxes;
- the state should stop passing mandates on to local governments; and
- whatever is done, the property tax base should not be reduced any further.

COMMITTEE WORK SESSIONS

One of the goals established by the Committee was to ". . . develop a more complete understanding of taxation, including the effects of how utility restructuring may affect property taxation". In pursuit of that goal, the Committee also identified several objectives:

Objective: Develop a history of the property tax system, including legal foundations, changes in the system since 1972, revisions for centrally assessed property, changes in tax rates, changes in property classes, exemptions, etc.

Objective: Determine, by class of property, who pays property taxes.

Objective: Determine what programs, services, functions, etc., are funded by property taxes.

Objective: Investigate what citizens know about the property tax system, what citizens' attitudes are about the services they receive for the property taxes they pay, what their ideas are with respect to a level of property tax that is "fair", what property taxpayers feel is an appropriate (equitable/fair) way of determining value for property tax purposes, etc.

Objective: Explore what influences and mechanisms, aside from valuation, exist that can control or affect property taxes.

Objective: Compare Montana's property tax system with the property tax systems in North and South Dakota, Wyoming, Idaho, Oregon, and Washington.

Objective: Coordinate the SB 195 study with the study of taxation and utility restructuring being conducted by the Revenue Oversight Committee.

Objective: Identify and catalog historical changes (trends) between property tax jurisdictions with respect to: market values; taxable values; types of property; mill levies; etc.

In retrospect, these objectives comprised the heart of the Committee's study. In somewhat greater detail, the following narrative describes activities relevant to one or more of the objectives.

GENERAL OVERVIEW AND HISTORY

At each of the Committee's meetings[4], staff presented information showing concise yet general trends in state and local finances since 1972.[5] Beginning with Chart 1, the range of historical information presented was intended and may have actually helped to dispel many of the preconceptions entertained by Committee members, taxpayers, news persons, citizens, and others.

In general terms and stated in overly simplistic terms:

- ☞ Montana's state and local governments rely less heavily on property taxes nowadays than they did 25 years ago;
- ☞ total state and local property tax collections have increased more slowly than inflation or personal incomes;
- ☞ total state and local taxes in Montana as a share of total personal income have remained fairly constant and are actually *less* now in percentage terms than they were 25 years ago; and
- ☞ public education's 60%-plus share of property taxes for elementary, secondary, and higher education has remained relatively constant over the past 25 years.

Composition of State and Local Tax Revenue

Chart 1 shows the proportionate shares of state and local taxes in 1972 and 1996. Counterintuitively, perhaps, and surprisingly to many who viewed the data, the share composed of property taxes *declined* from 51% to 41% of the total between 1972 and 1996.

The chart also shows that individual income and sales (and excise) taxes were and continue to be the other major component of state and local taxes in Montana. In 1996, these "three legs of the stool" comprised 77% of all state and local taxes. Comparatively, the big three accounted for 87% of the total in 1972.

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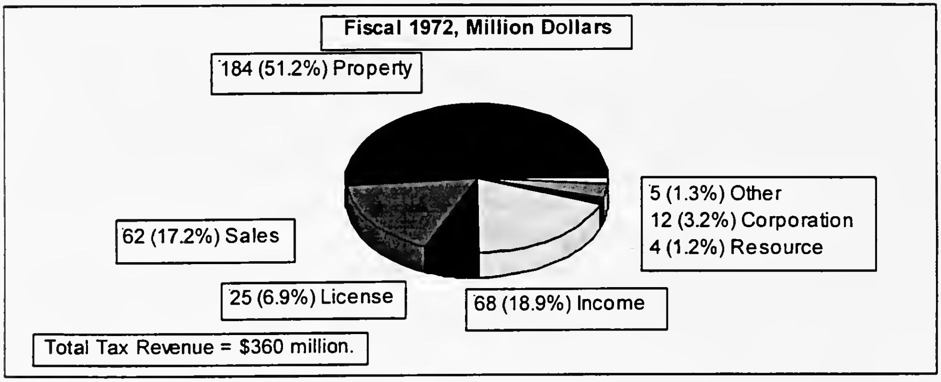
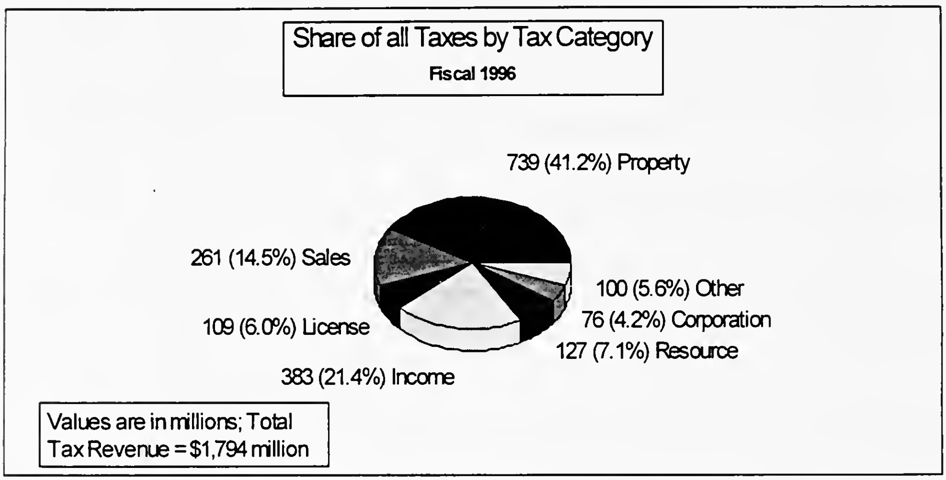
[4] This minimally overstates the case; however, staff did present the historical overview at 18 of the Committee's 21 meetings. Additionally, the material was presented by staff in several other venues and is also available for future presentations.

[5] See Appendix B for a complete set of the charts. Unless indicated otherwise, the year indicated is a state fiscal year, running from July 1 through June 30 of the following year. Thus, 1972 is the period of time from July 1, 1971, through June 30, 1972.

The indication is that sources of state and local tax revenue have been somewhat diversified over the past 25 years.

Chart 1





What is not immediately obvious from the information in Chart 1 is that the "size" of the pie expanded greatly between 1972 and 1996. Total state and local taxes in 1972 were $360 million, but had increased to $1,794 million by 1996, an average annual growth rate of about 5.9%.

That trend can also be seen for various, individual slices of the pie. For example, the proportionate share of property taxes shrunk from 51% of the total pie to about 41% over the 25-year period. But while the proportionate share was shrinking, the nominal (not adjusted for inflation) amount of property tax collections actually expanded from $184 million in 1972 to about $739 million in 1996, an average annual growth rate of about 4.7%. This phenomenon happens because the rate of growth in property tax collections was less than the overall rate of growth in total tax collections.[6]

Changes in the Economy

Chart 2 provides a quick look at changes in inflation and total personal income in Montana. Between 1972 and 1996, inflation, as measured by the Consumer Price Index (CPI), increased about 280% and total personal income increased more substantially, by about 450%. On an annualized basis, inflation averaged 4.4% each year and total personal income grew by not quite 6.6% annually.[7] This data was both illuminating and relevant because there were relatively frequent comments made by legislators and citizens that "incomes had not kept pace with inflation".

On the bottom axis of Chart 2 is a line that bounces minimally up and down, but stays relatively flat over the 25-year period. This line represents total state and local taxes in Montana as a percentage of total personal income in Montana, a common way to measure tax burden. Over this period of time, taxes as a percentage of income ranged from a high of about 12.5% to a low of about 11.5%. Perhaps contrary to common perceptions and conventional wisdom, total state and local taxes in Montana as a percentage of total personal income were actually *less*, by about 8%, in 1997 than in 1972.

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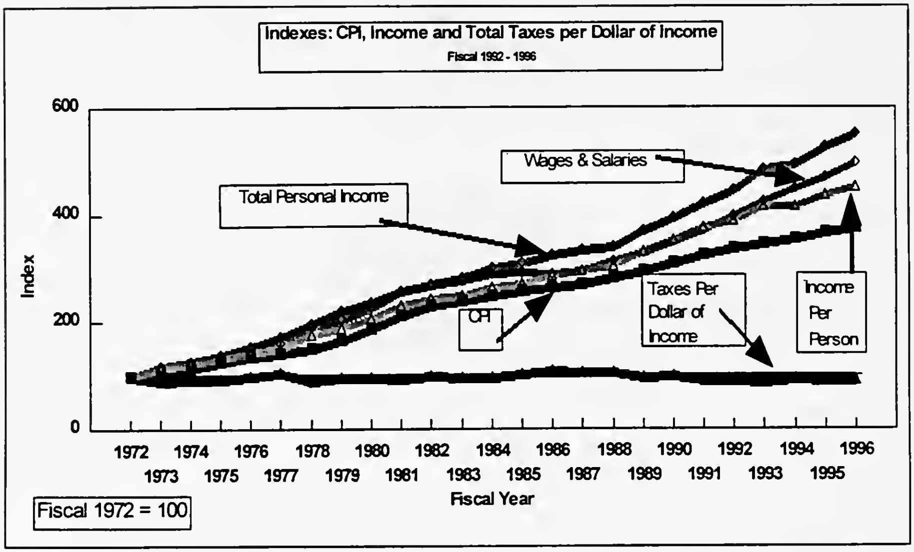
[6] It is worth noting that the phenomenon occurs in some manner in each of the "pie charts" that follow, including those in Appendix B.

[7] Changes in total personal income reflect changes in individuals' earnings from year to year and also capture changes in population.

Chart 2



Changes in Statewide Valuation

In discussing property taxation, two terms are frequently used that must be understood by themselves to also understand the greater complexities of the property tax system. The two terms are "market value" and "taxable value".

As defined in 15-8-111, MCA, "market value is the value at which property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts". Fairly simply, the market value of something is the price someone who knows what they're buying pays for something being sold by someone who knows what they're selling.

As defined in 15-1-101, MCA, "taxable value means the percentage of market or assessed value as provided for in Title 15, chapter 6, part 1". Taxable value is derived by multiplying the "market value" of a property by the statutory taxable rate applicable to the class of property into which the property is classified. For example, the taxable value of a home with a market value of $100,000 would be the market value multiplied by the 3.816% statutory taxable rate applicable to homes, i.e., Class Four property under 15-6-134, MCA, or $3,816.

Chart 3 tracks the total statewide market value and taxable value of all property subjected to property tax mill levies from 1971 to 1997. The lower half of the chart shows that the state's

total market value increased from about $5.7 billion in 1971 to about $38 billion in 1997; an increase of about 560% over 25-plus years.[8] In contrast, the state's total taxable value increased only a bit under 100%, from about $0.965 billion in 1971 to about $1.867 billion in 1997.

On an annualized basis, the state's market value increased at an average of about 6.8% annually, but the total taxable value increased on average at less than one-half that rate, by only 2.7% annually. In fact, the state's taxable value was so static that the upper half of the chart is presented so that a clearer picture of changes in taxable value can be shown.[9]

Importantly, both market value and taxable value are shown in nominal, not inflation-adjusted, terms. Graphically, it is apparent that increases in the statewide market value kept pace fairly well with increases in personal income and CPI inflation. (See Chart 2.) At the same time, increases in the statewide taxable value fell far behind changes in either inflation or total personal income.

There are two significant jumps in the statewide market value: one in 1979 and another in 1987. In those two years, the Department of Revenue (DOR or Department) completed statewide reappraisals of Class Four property--basically homes and commercial realty. Because of the multiyear, cyclical nature of the reappraisals, appreciation in market values of Class Four properties occurring over a several-year period show up all at once. Noteworthy, however, is the observation that there were no corresponding jumps in taxable value. The underlying reason for that factor were legislative changes to the statutory taxable rates that offset the aggregate, statewide increase in market value appreciation.

Changes in the statewide taxable value visible on the upper portion of the chart appear for a variety of reasons, including the appreciation and depreciation of property values (including inflation and deflation), additional property being added to the tax roles (e.g., as more homes are built or existing homes are improved), the exemption of certain property (such as household goods, business inventories, or automobiles), restrictions imposed by federal laws (with respect to railroads and airlines), and legislative changes to the statutory tax rates for or the composition of the various classes of property.

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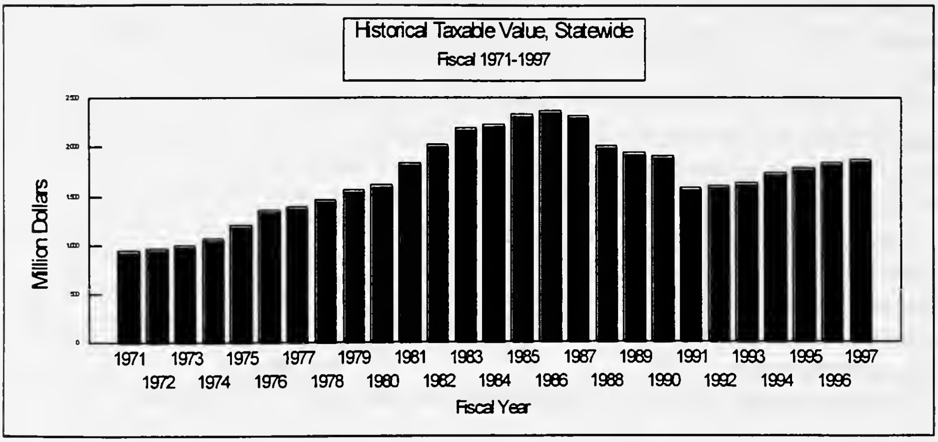
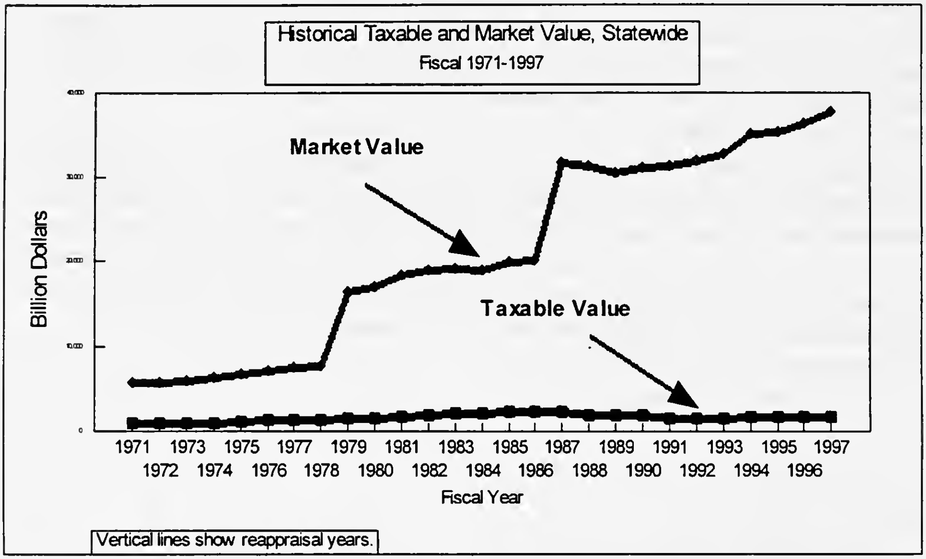
[8] The market value includes only property that is subject to property taxation through mill levies. Thus, it does not include "exempt" property nor does it include property on which taxes are levied at a flat rate, such as automobiles or natural gas production.

[9] What is not discernable from the graphics are changes to the tax base. For example, in the early 1970s, such property as household goods, automobiles, and coal production were in the tax base subject to mill levies, but by 1997 each of those categories was exempted from mill levies and thus disappears from the statewide values shown.

Chart 3



Historical Taxable Value, Statewide
Fiscal 1971-1997
Million Dollars
1971 1973 1975 1977 1979 1981 1983 1985 1987 1989 1991 1993 1995 1997
1972 1974 1976 1978 1980 1982 1984 1986 1988 1990 1992 1994 1996
Fiscal Year



Historical Taxable and Market Value, Statewide
Fiscal 1971-1997
Billion Dollars
Market Value
Taxable Value
1971 1973 1975 1977 1979 1981 1983 1985 1987 1989 1991 1993 1995 1997
1972 1974 1976 1978 1980 1982 1984 1986 1988 1990 1992 1994 1996
Fiscal Year
Vertical lines show reappraisal years.

Changes in Statewide Market Value

At the public hearing in Great Falls in June 1998, an insightful citizen commented with some amusement that in 1997, the total market value of property in Montana, at ±$38 billion, represented approximately 70% of the estimated $54 billion net worth of Microsoft founder Bill Gates.[10]

Chart 4 illustrates the 25-year transition of the tax base, comparing the composition of market values of property categories in 1972 to 1997.

A quick perusal of the chart reveals that 50% of the state's total market value in 1972 was composed of agricultural and timber lands, a proportion that had shrunk to only 12% by 1997.[11] Conversely, the slice of pie labeled "other real" (representing residential and commercial realty) expanded from only 20% of the base in 1972 to over 60% by 1997--more than tripling in the 25-year period.

Also noteworthy is the change in the relative importance of business equipment, labeled "Personal" on the chart. In 1972, business equipment accounted for nearly one-sixth of the state's market value. By 1997, business equipment's share of the total had diminished to less than one-tenth of the total.

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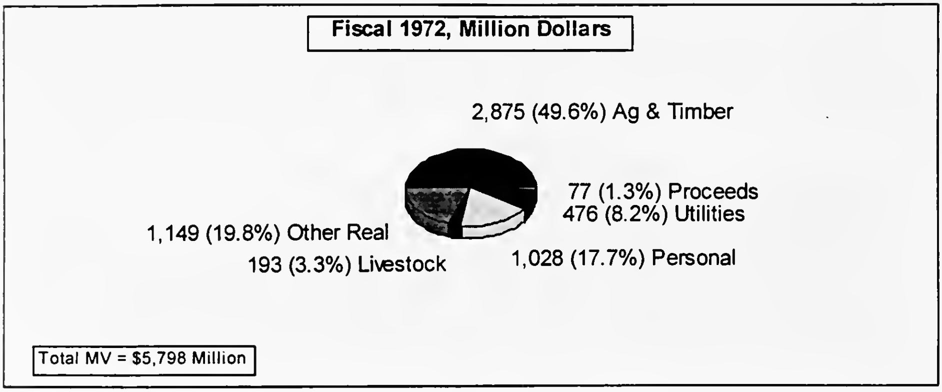
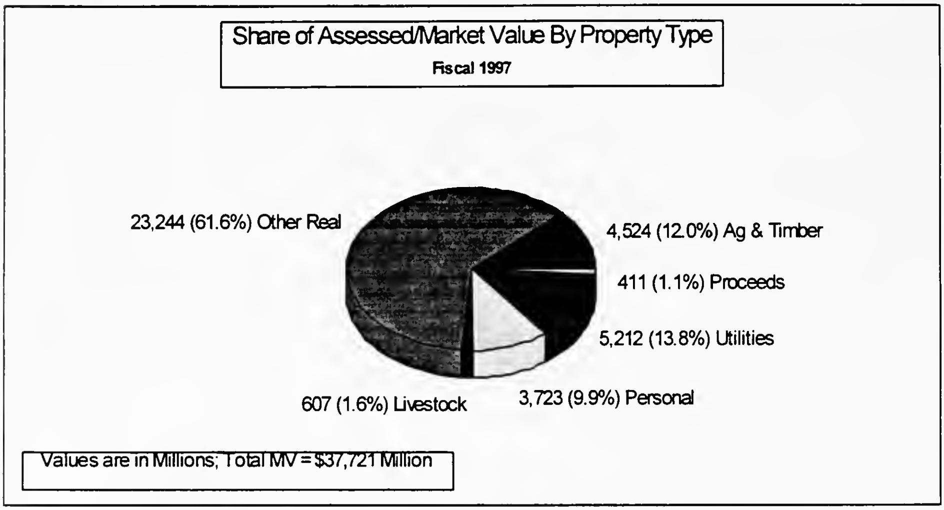
[10] Based on the figures, Bill Gates could buy all of the taxable property in Montana and have some $16 billion left over. Invested in securities returning a moderate 6% annually, the $16 billion remaining would allow Mr. Gates to not only pay the ±$800 million in the annual taxes on the property, but he'd also have an additional $160 million left over to make ends meet.

[11] This reduction in proportionate share is not due to actual depreciation in the value of ag and timber land, but to the fact that the increases of value in ag and timber lands were at a much slower rate than the addition of and increases in the values of all other types of property subject to taxation over the same 25-year period.

Chart 4





Important, but not immediately obvious from the information in chart 4, is the fact that the "size" of the market value pie expanded greatly between 1972 and 1997. The total market value of property subject to mill levies in 1972 was $5.798 billion, but had increased to $37.721 billion by 1997, an average annual growth rate of nearly 7.4%.

That trend manifests differently for individual slices of the total market value pie, however. For example, again using agricultural and timber lands: the proportionate share of property value represented by agricultural and timber lands decreased from nearly 50% of the total pie in

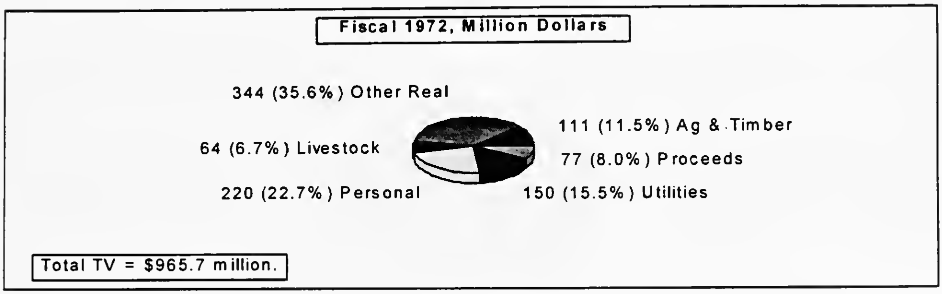
1972 to only about 12% of the total by 1997. But while the proportionate share was shrinking, the nominal (not adjusted for inflation) amount of property value attributable to "ag and timber" land actually expanded by 57%, from $2.875 billion in 1972 to about $4.524 billion in 1997, or an average annual growth rate of just under 1%.

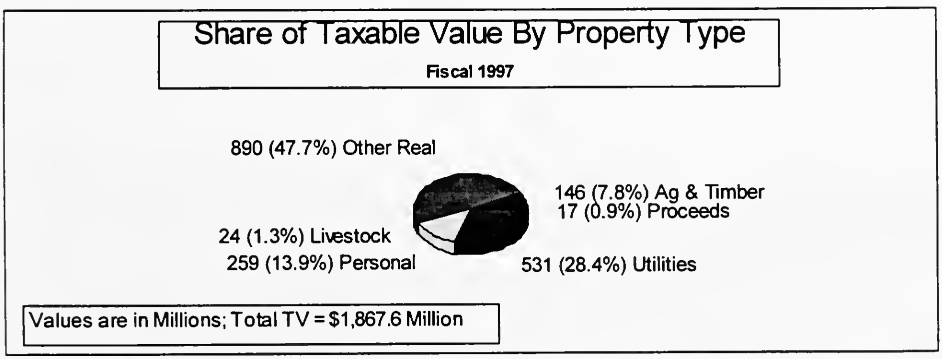
As discussed previously with the total state and local tax pie in Chart 1, this phenomenon occurs because the rate of growth in the value of agricultural and timber land (1% annually) was less than the overall rate of growth in total market value (7.4% annually).

Changes in Statewide Taxable Value

Chart 5 begins to refine and better delineate the shifting burden in property taxes over the past 25 years. Because the taxable value of property is the basis against which mills are levied, changes and shifts in taxable value are more directly related to changes and shifts in actual property taxes (than are changes in market value).

Chart 5





In relative terms, the share of taxable value represented by utilities--power companies, railroads, pipelines, and other similar enterprises---increased the most, almost doubling from 15.5% of the total in 1972 to 28.4% of the total in 1997. The share represented by "other real" (again, residential and commercial realty) also increased substantially, from about one-third of the total taxable value in 1972 to nearly one-half of the total in 1997. Between the two categories, what was about 50% of the total in 1972 had increased to over 75% of the total by 1997.

The taxable value for each of the other categories of property shown in Chart 5 declined between 1972 and 1997, most notably the shares represented by "proceeds" (natural resource production) from 8% in 1972 to less than 1% in 1997 and "personal" (business equipment) from nearly 23% in 1972 to 14% in 1997.[12]

Changes in Tax Burdens

Somewhat in parallel to changes in taxable valuation shown in the previous chart, Chart 6 illustrates changes in the proportionate shares of property taxes paid, by property type, between 1972 and 1997.

Changes in proportionate share of taxes paid echo changes in proportionate shares of taxable value. The "utilities" share increased from 15.5% of total property taxes paid in 1972 to 23.8% in 1997, an increase of some 50% over the 1972 base year. The share for "other real" grew from 35% of the total to 53% of the total, another increase of 50%.

The "taxable value to taxes paid" echo reverberates for other types of property as well, with the proportionate shares of "ag and timber", "proceeds", "personal", and "livestock" all declining significantly from 1972 to 1997.[13]

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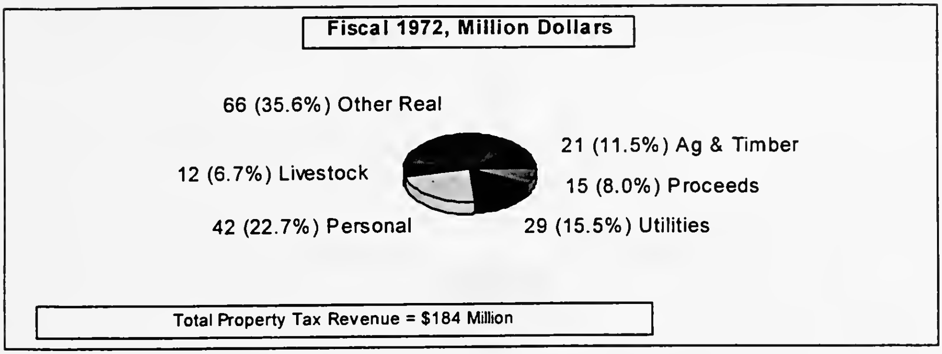
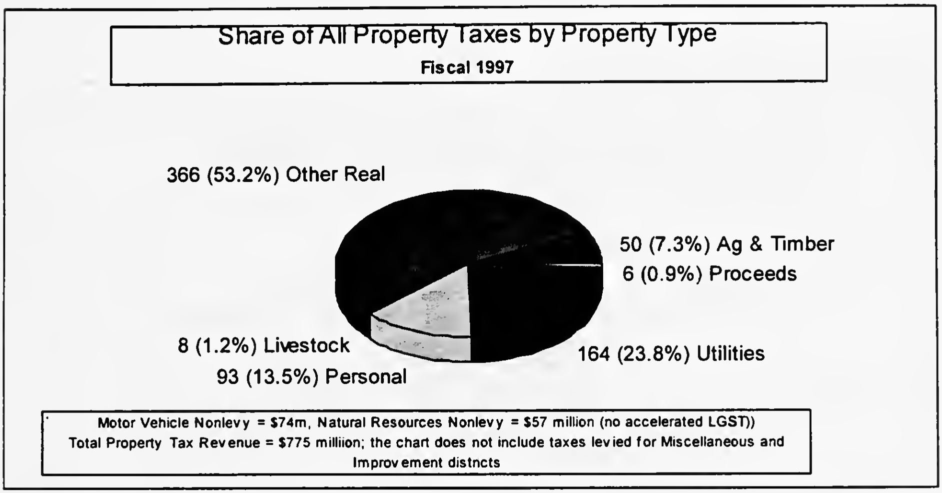
[12] Importantly, changes in "proceeds" is not sufficiently descriptive to tell the whole story. True, the decline from 8% to 1% is accurate, but it ignores the fact that some $57 million in production taxes was paid on "proceeds" in 1997 that was not even assessed in 1972. Also, the components included in "personal" in 1972 changed dramatically between 1972 and 1997 with significant exemptions (e.g., household goods) being instituted as well as property class consolidations and rate restructuring.

[13] It is again important to stress that, due to such actions as property tax exemption, the 1972 and 1997 "slices" of the pie are not necessarily composed of identical property . For example, business inventories were taxable in 1972 but exempted after 1981 and automobiles, subject to mill levies in 1972, are now exempted from mill levies but the ±$75 million in light vehicle taxes paid in 1997 are accounted for by other means known as "nonlevy" revenue.

Chart 6



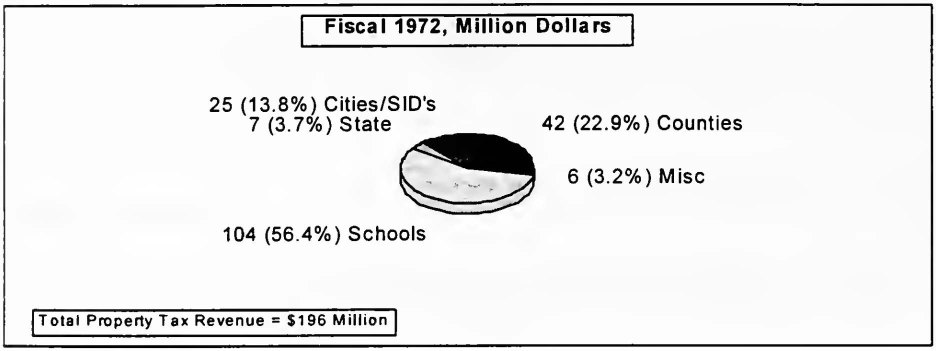


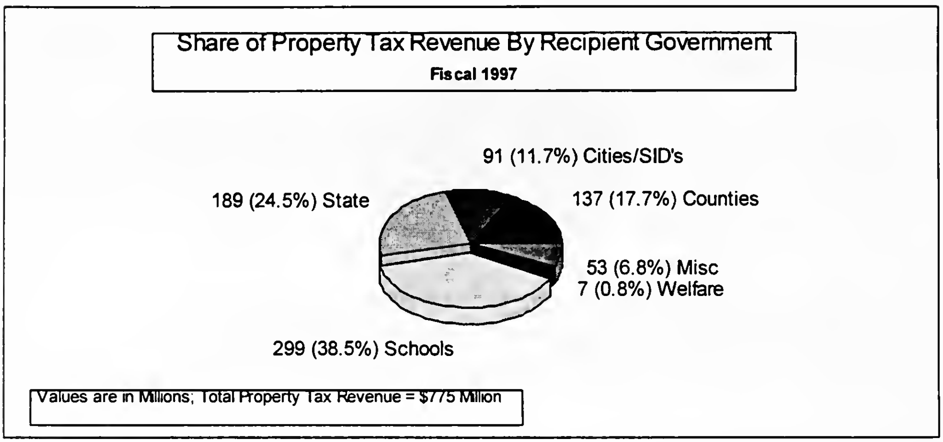
Disposition of Property Taxes

The purpose of levying and collecting taxes is to provide for public services and programs. Partially because the mix of programs and services has changed significantly in the past quarter century, Chart 7 identifies the jurisdictional destination of property taxes: education, cities, counties, and miscellaneous.

As universally recognized, "education" was and is the largest recipient of property tax revenue.[14] Twenty-five years ago, education received just over 60% (three-fifths) of all property tax revenue. In 1997, education's share remained essentially the same at 63.8%.

Chart 7





The share allocated to cities declined slightly, from 13.8% of the total to 11.7% of the total, while counties saw a somewhat steeper decline, from nearly 23% of the total to under 18%.

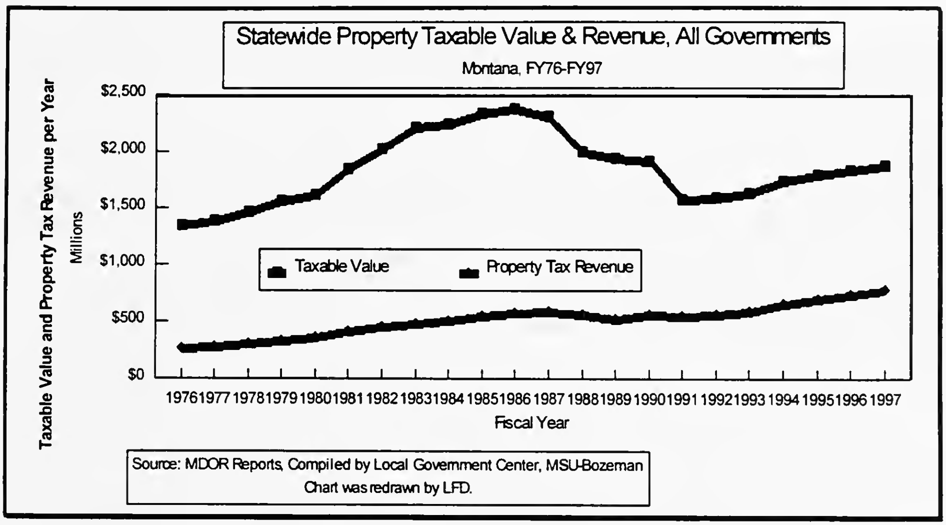
[14] As used here, "education" includes property taxes expended on elementary and secondary schools and the amount derived from the 6-mill levy for the Montana University System.

Due in part to the passage of Initiative No. 105 in 1986, the state has seen considerable growth in entities known generically as "special districts", represented by "misc" in the chart. The share for these entities increased from 3.2% of the total pie in 1972 to some 6.8% of the pie in 1997.

A Relationship Between Taxable Value and Revenue

Even without looking at statistical evidence, Montanans instinctively perceive that property taxes have increased over the past 20 years. Chart 8 graphically illustrates that perception to be accurate, but probably oversimplifies the situation. Clearly, the total taxable value of property in Montana increased from 1976 to 1997. Property taxes also increased over the same period of time. Beyond that, assumptions about an individual property or even a class of property become somewhat risky because, while the directions of these changes are inherently predictable, the magnitude of the changes are not.

Chart 8



The lower line in Chart 8 represents total property tax collections, beginning in 1976 and continuing through 1997. Over that interval, total collections nearly tripled from about $260

million in 1976 to about $775 million in 1997.[15] Over the same span, the taxable value of the state--represented by the upper line on the chart--increased by less than one-half (44%), from about $1.3 billion to about $1.87 billion. From those figures and employing simple arithmetic division, the statewide average mill levy in 1976 was about 200 mills compared to a statewide average levy in 1997 of about 414 mills.[16]

Mostly as a result of the levy increases alone, property owners saw their property taxes virtually double in 20 years. To the extent than an individual residential or commercial property appreciated at a rate greater than the statewide average, the individual's taxes would have increased by more than double between 1976 and 1997.

As straightforward or obscure as the trends seem, the property tax puzzle is more complex than meets the eye. Even knowing, for example, that the statewide average mill levy doubled between 1976 and 1997, determining what changes occurred among the different types (classes) of property requires additional investigation and, moreover, there are significant jurisdictional and regional variances to boot.

Support of Services From Property Taxes

It is widely perceived that schools, county governments, and municipalities rely heavily on property taxes to support the array of programs and services provided at the local level. Chart 9 traces changes over the past dozen years in these entities' relative reliance on property taxes.

For schools, property tax reliance has been heavy and changing. In 1987, schools depended on property taxes for about 60% of total budgets. Following the passage of I-105 (1986) and school funding equalization reforms in the late 1980s and early 1990s, that reliance dipped to a low of about 45% in 1990, but is again approaching the 60% level in the late 1990s.

Cities and counties, due in principal part to I-105, have relied less and less heavily on property taxes. From a property tax reliance level of about 45% of budgets, cities' reliance declined to nearly 30% (1995), and counties are approaching that level as the century draws to a close.

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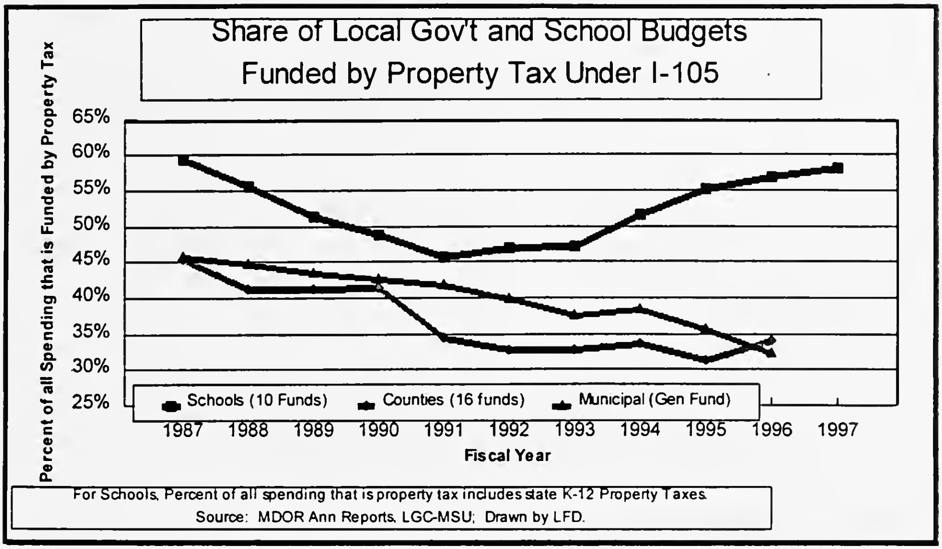
[15] The $775 million collected in 1997 does not include two significant sources of nonlevy revenue, i.e., approximately $75 million in automobile license taxes and $57 million in natural resources production taxes.

[16] It is widely known among folks who work with property taxes and tax policy that mill levies in incorporated municipalities are generally much higher than in suburban and rural areas. For purposes of comparison, it is common for total levies within cities and towns to exceed 500 mills, even approach 600 mills. In contrast, total levies of 350 mills or less are often the norm in suburban and rural areas. Consequently, comparable properties having equal, $100,000 market values could be taxed at highly differing rates, perhaps upwards of $1,900 in town and about $1,350 outside of town.

Chart 9



Is Something Missing?

Much of the information presented heretofore might cause a reader to question what the problem with property taxes is, if there is a problem. A quick review of the charts reveals:

- property taxes make up a smaller portion of total state and local taxes in 1997 than they did in 1972: 40% now versus 50% then;
- from 1972 to 1997, growth in total personal income averaged about 6.6% annually and CPI inflation averaged about 4.4%. On an individual basis, *per capita* incomes in Montana increased at an annual average of about 5.4% over the period.
- the growth in the state's total market value was over 600% between 1972 and 1997, but corresponding growth in the state's taxable value was less than 100%;
- the property tax base changed dramatically over the past 25 years, with homes, businesses, and utilities accounting for a much higher proportion of total statewide market and taxable values and with business equipment, natural resource production, livestock, and agricultural and timber lands each comprising a much lower proportion of total market and taxable values;
- in near lock step with changes in valuation, homes, businesses, and utilities bear larger shares of the property tax burden in 1997 than they did in 1972. As taxes have shifted onto

those types of property, the beneficiaries have been ag and timber lands, business equipment, natural resource production, and livestock.

- schools consume the lion's share of property taxes, just over 60%, a proportion that has remained remarkably stable for the past 25 years;
- although statewide taxable value has swelled and declined periodically over the past 20 years, property tax collections have steadily increased, but at about 5.3% annually, more slowly than total personal income at about 6.6% annually and more slowly than per capita income at 5.4% annually;
- K-12 schools rely on property taxes for about \$3 of every \$5 in their budgets. Cities and counties are not as dependent on property taxes, counting on levies for only about one-third of their respective budgets in 1997, down significantly from a 45% reliance in 1987.

Chart 10

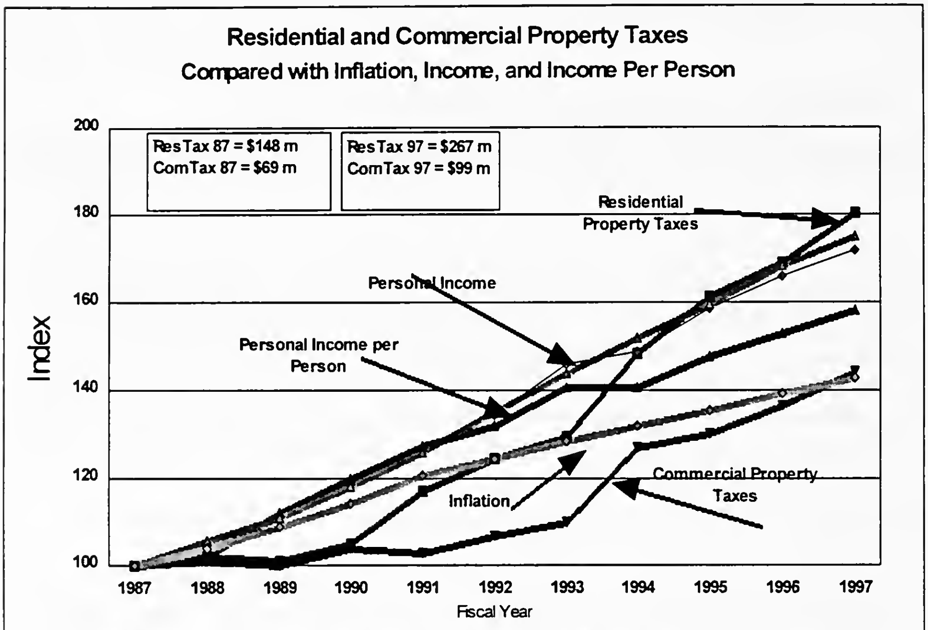


Figure in boxes show property tax paid to all governments for Residential (ResTax) and Commercial (ComTax) for FY87 and FY97

So Where Is the Crisis?

Chart 10 tells part of the story. By building on information presented in Chart 2, the underlying reasons for property taxpayers', particularly home owners', disillusionment with property taxes begin to become apparent.

In short, property tax collections from residential property have increased faster in the past 10 years than has per capita income or total personal income. Moreover, the rate of change in property taxes collected on homes has increased at virtually double the rate of inflation and at double the rate that property taxes collected on commercial realty increased.

To compare in another way, property tax collections from commercial realty increased by about 43% between 1987 and 1997, some 3.7% annually. Tax collections from residential property, however, increased by about 80% over the decade or just over 6% annually. The average annual rate of change in taxes collected on residential property was more than 50% greater than the rate of change in taxes collected on commercial realty.[17]

Intuitively, home owners perceive that they are bearing a heavier burden than they used to. Empirically, they are bearing a heavier burden.

Importantly, the aggregate "collections" referred to here are composed of three principal factors: (1) the net appreciation in value of existing properties; (2) the net addition of new properties, including improvements made to existing properties; and (3) net changes in mill levies. (Changes in the nominal or statutory tax rate could also have been a factor, but that rate has remained essentially static for the past 10 years.) In combination, the three principal factors have resulted in significant growth in aggregate collections.

Note, however, that while the rate of change in *aggregate* collections from residential and commercial property has exceeded rates of change in personal income and inflation over the same period of time, there are wide differences in changes in taxes paid experienced by *individual* residential and commercial taxpayers. Among this group, many have experienced changes in taxes on their own property that most likely have been less than the rates of change in inflation or statewide personal income. This situation results from formal and informal caps on property tax increases established in statute (primarily Title 7 and Title 20) and I-105 (Title 15, chapter 10, part 4) and from tax and spending policies followed at both the state and local levels.

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[17] To appreciate the longer-term effect of the difference in rates of change, compare a $20,000 annual income increasing by 3.7% annually between 1998 and 2008 to the same income increasing by 6% annually. At 3.7% growth the $20,000 income in 1998 becomes $28,700 while at a 6% rate income rises to $36,000. Over the next 5 years, the income growing at 3.7% would become $34,400, but the one growing at 6% becomes $48,400. In the first 10 years alone, the cumulative benefit of the 6% rate is some $34,000; over the 15-year period, the cumulative benefit balloons to over $87,000. Such is the magic of compounding.

CURRENT EVENTS

Aside from the historical overview, the Committee members were continually involved in adding to their individual knowledge and understanding. Additionally, "life goes on", and that fact eventually affected the focus and actions of the Committee, if not directly, at least indirectly.

Getting an Education

Initially having at least a rudimentary understanding of property taxation in general, Montana's tax system, and the recent history of state and local taxes, the Committee endeavored to become more knowledgeable about processes and techniques employed by the Department of Revenue (DOR) staff in valuing property for tax purposes.

At the Committee's third meeting of the interim, in October 1997 in Dillon, DOR staff conducted a seminar in the fundamentals of property appraisal. During the 2-hour training session, the DOR staff and Committee members discussed comparable sales techniques and the income approach to valuation. Committee members challenged the DOR staff on matters ranging from "obsolescence" to the accuracy of sales data to changing markets to personal knowledge and integrity among DOR appraisers. By the end of the seminar, Committee members had greater understanding of DOR methods--if not greater faith in the application and outcomes of those methods.

Building on the value of the first seminar, the Committee also called upon DOR staff to conduct similar seminars: in December in Hamilton on the valuation of centrally assessed property, primarily utility and interstate transportation property; and in Havre in May on valuing agricultural lands.

At the January meetings in Lewistown, the Committee was also exposed to an intensive, 1-day seminar on the concept of "acquisition valuation" and the experience in California since Proposition 13 was adopted in 1978. The issue remained visible on Committee agendas for the remainder of the interim and received frequent attention in subsequent Committee discussions and in comments received at public hearings around the state.

By the end of the study, Committee members had invested numerous hours investigating the processes and substance of property appraisal for taxation purposes. Assuredly, the members now are more knowledgeable and have greater understanding of the property tax system than they did when the study began.

In another aspect of the curriculum, what might be referred to as a "public education", the Committee was also informed about taxes by the citizenry. Relying on a variety of facts, issues, situations, circumstances, anecdotes, speculation, analysis, and personal observations and experiences, residents enlightened the Committee to the way things really are for real people in the real world. After perhaps 100 hours or more of testimony, the members were "reeducated"

and likely developed a broader and perhaps keener notion of the sentiments of the public--or at least the sentiments of those willing to share their insights and ideas.[18]

A Taxpayer Says "Bully!"

The legislation that created the Committee, SB 195 (1997), was controversial from the start. Proponents lauded its principal effect, the virtual freeze in individual's residential and commercial property taxes at 1996 levels. Opponents criticized purported inequities and speculated that constitutional challenges--easily avoidable by pursuing different means of revision--would be mounted and succeed. Rhetoric aside, nearly everyone took comfort in the understanding that the "virtual freeze" solution was intended to be only temporary.

Within only 6 months of passage, provisions of SB 195 were challenged through the tax appeal process, including eventual appeal to the judiciary.[19] As fate would have it, the solution may be somewhat more temporary than intended. In August 1998, Tenth Judicial District Judge John Christensen of Lewistown ruled in *Roosevelt v. Department of Revenue*[20] that portions of SB 195 were unconstitutional, perhaps rendering the "virtual freeze" void. In September, the DOR filed a notice of appeal to the Montana Supreme Court, and in October, the parties to the appeal filed briefs on the case. Thus, with a decision on the appeal anticipated prior to final adjournment of the 56th Legislature, the matter of what to do with the most current (1996) appraisals may again have to be considered--and resolved.

Home on the Range

It can frequently be heard these days that, "Montana has been discovered". Translated into practical parlance, "discovery" has led to a growing population, growing demand for (certain) public services, changes in demographics, and changing landscapes.

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[18] Public testimony was summarized at the beginning of the report. For a more complete rendition of comments, a copy of the minutes of each Committee meeting, including testimony, is available at the Legislative Library, Room 102, State Capitol, Helena, MT, 59620.

[19] See, e.g., *Potter v. State Tax Appeal Board* and *Glacier Motor Inn v. State Tax Appeal Board*. Available at Montana State Tax Appeal Board, Helena, Montana, 59620.

[20] See Roosevelt v. Department of Revenue, DV-98-50. The plaintiff in this case was Theodore Roosevelt IV, the great grandson of President Theodore Roosevelt.

Among the manifestations of recent growth have been the creation of numerous suburban tracts, "ranchettes", and "trophy homes".[21]

Philosophical differences articulated between developers and conservationists reached new heights, perhaps, in the early 1990s as the state's subdivision laws were assailed by the former for stifling economic development and by the latter for promoting urban sprawl and carving up of Montana's cherished open spaces. By the end of the 53rd Legislative Session a mostly acceptable compromise had been reached through the legislative process.

Through the debates over subdivision, it became apparent that subdivisions were also having significant effects in the tax arena, some of which were, of course, unintended. Among the unintended effects was the appraisal for tax purposes of subdivided parcels of relatively large size (20 to 160 acres). By law, these parcels were often reclassified and, hence, revalued as residential property rather than as agricultural land. The tax implications were dramatic as residential land was, and is, typically valued at multiples of 10 times higher than equal-sized parcels of agricultural land.

Over the past 10 years and for any number of reasons, numerous developer-assisted farmers and ranchers had created or were in the process of creating ranchettes, typically the 20-acre variety, and offering the parcels for sale as residential or "recreation" property. Because the land was no longer actively devoted to agricultural pursuits, the DOR by law reclassified and revalued the property for tax purposes at its significantly higher value as Class Four residential property. Thus, many Montanans who had historically paid taxes on their agricultural enterprises at preferential agricultural rates that were reasonably based on "productive capacity value" were suddenly confronted with the shocking reality of "market value" and so were unwary purchasers of the newly created parcels. Of course, such practices and the resulting increases and shifts would not withstand legislative scrutiny for very long. In 1993, Montana law was changed to provide special tax treatment for these 20- to 160-acre tracts, beginning in January 1994.[22]

Over the course of the study and in nearly every public hearing venue, the Committee encountered testimony regarding other unintended consequences of past legislative actions. Among the points made was the "incentive" to subdivide, unintentionally provided by the tax

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[21] The term "ranchette" is typically invoked in reference to a parcel of land that is at least 5 acres in area and is probably capable of sustaining a horse. The expression "trophy homes" has been introduced only recently into the lexicon and, with wide variation, refers to expansive residential structures constructed from unique plans and specifications by custom builders for mid-six-figure dollar amounts or more. Often, trophy homes are built on ranchettes in areas that have been relatively remote prior to development.

[22] See Section 1, Chapter 627, Laws of 1993.

treatment of 20-plus-acre ranchettes. While speakers admonished the Committee that "something should be done", nothing in particular was mentioned as a solution.[23]

Generating Controversy

An obvious trend in public policy of the 1990s has been the deregulation of commercial activity. Following deregulation of the transportation and freight industries in the 1970s and 1980s was the deregulation of telecommunications in the 1980s and 1990s. During the 55th Legislative Session, it seemed to be the appropriate time to contemplate and effect the deregulation or "restructuring" of the electric and natural gas industries in Montana. After the dust settled, Senate Bill No. 390 (Ch. 505, L. 1997) provided for the transition from some 100 years of regulation to the 21st century and open competition.

Controversial as the restructuring legislation was, its anticipated consequences had not included the outright and nearly imminent sale of the electricity-generating facilities of the Montana Power Company, announced by the company in late 1997. Because of the nature of Montana's property tax system, particularly property classification, the tax implications from restructuring and the pending sale of generating property became a focal point of inquiry.

The legislative Revenue Oversight Committee (ROC) was commissioned to study and make recommendations on the "utility taxation" piece of the property tax puzzle. Throughout 1997 and 1998, the ROC examined potential implications of restructuring, generally, and specifically the sale of electricity-generating assets.

Because the ROC will publish a full rendition of its activities, findings, conclusions, and recommendations regarding restructuring and the sale of MPC's generating assets, only a summary of the study is provided here.[24]

The short of it is that the property tax landscape has changed. Where regulated utilities were historically saddled with disproportionately high property tax burdens,[25] unregulated

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[23] The matter of ranchettes and subdivisions and the tax implications of them were first touched upon in Livingston in March 1998 and frequently at meetings thereafter. At the Committee's final meeting, September 14, 1998, in Helena, Senator Laurents Grosfield (who was not a member of the Committee) reiterated his concerns and pledged to work with any Committee willing to confront the issues and to work towards better solutions.

[24] *Competition and the Taxation of Electric and Natural Gas Utilities and Telecommunications Services and Other Issues Before the Revenue Oversight Committee*, Legislative Revenue Oversight Committee, November 1998. Available from the Legislative Services Division, Room 138, State Capitol, Helena, MT 59620-1706.

[25] Perhaps to a greater extent than any other enterprise, regulated utilities shouldered a property tax burden that was higher than most commercial activities, although the burden was, arguably, only superficial to the economic interests of the industry. That was the case in the regulated environment because property taxes were allowed, through the rate structuring process, to be automatically distributed among utility customers. As a result, a utility was merely a property tax collector, acting as an inconspicuous agent on behalf of governmental entities.

utilities will not be able to compete effectively under traditional property tax schemes in an unregulated and competitive environment.

To accompany the changes towards market competition, options under consideration by the ROC and the affected industries call for a general and substantial reduction in property tax rates, from 12% currently to 6% (or less) in the near future, and the imposition of new or increase of existing taxes on consumption, generation, or use of energy or telecommunications.

The Grass Is Always Greener, or Is It?

Speaking of competition, a common thesis espoused by legislators, lobbyists, editorial writers, citizens, and others is that Montana's tax structure is noncompetitive with neighboring states. Although the Committee attempted to test the premise, they found it formidably difficult to draw any definitive conclusions. What was discovered is that Montana's taxes are high and low, progressive and regressive, increasing and decreasing, equitable and punitive. Whatever the "facts" are, it is probably safe to say that most Montanans roundly perceive the state's tax system to be less than optimal.

Conversely, there is considerable risk in simplistically comparing taxes between states or between other jurisdictions, for that matter. As Hal Hovey, editor of *State Policy Reports*, observes:

> . . . comparing property taxes is much more difficult [than comparing sales or income taxes] because the decisions on property tax rates are made independently by tens of thousands of local governments which often overlap each other. The resulting rates and practices in determining assessed values of properties vary sharply within states, so no one is able to calculate and compare statewide averages without spending on research that has not been forthcoming from any source.[26]

Some of the obstacles encountered in attempting valid comparisons include:

- fundamentally different systems, including different mixes of major taxes (income, sales, property);
- significantly different nominal rates;
- significantly different tax bases;
- significantly different interrelationships among taxes within and between jurisdictions, such as the different effects of exemptions, exclusions, deductions, deferrals, credits, etc.;
- varying types and levels of public services provided; and

[26] *State Policy Reports*, Vol. 14, issue 17, p. 12 (Sept. 1996).

- fundamental differences in demographics (is the population expanding/contracting; aging or growing younger), geography (is there access to an ocean port), economics (history and trends in economic base, incomes, etc.), and so on.[27]

Even with these caveats and others, however, comparisons are bound to and, in fact, did happen during the Committee's study of Montana's property tax system.[28] For what it's worth, here are some data that are sure to cloud the issues.

☞ For calendar year 1995, the effective tax rate (taxes paid divided by full market value) on a typical suburban home in Montana was 1.16%, which ranked Montana 19th highest among the 50 states. Montana's 1.16% rate compared to a national high of 2.32% in New Jersey and to a national low of 0.16% in Hawaii. Regionally, some other states were (by percent and by rank): South Dakota, 1.69%, 9th; North Dakota, 1.14%, 20th; Oregon, 1.07%; 25th; Washington, 0.96%, 26th; Idaho, 0.89%, 29th; Colorado, 0.75%, 36th; Utah, 0.54%, 46th; Wyoming, 0.53%, 47th.[29]

☞ The average effective tax rate in Montana on Class Four property (homes *and* business realty) in 1996 was about 1.63% (property taxes paid divided by market value of property). In Missoula (city), the effective rate in 1996 was about 2.16%. Those effective rates compared to a 1995 U.S. mean average effective rate of 1.78% and a U.S. median average effective rate of 1.59%. Regionally, some other states were: Sioux Falls, SD, 2.55%; Fargo, ND, 2.06%; Boise, ID, 1.82%; Portland, OR, 1.80%; Billings, MT, 1.66%; Seattle, WA, 0.98%; Cheyenne, WY 0.76%.[30]

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[27] Perhaps ironically, comparing Montana's own tax system over time is fraught with challenges quite similar to those identified above. For example, the nominal (statutory) tax rate on homes declined from 30% in 1972 to 8.55% in 1978, 3.86% in 1987, 3.838% in 1997, 3.816% in 1998, and a projected 3.794% in 1999. Based on nominal rates alone, substantial reduction in residential property taxes is implied. At the same time that rates were reduced, however, market values were changing as were mill levies--but, between jurisdictions, not necessarily at the same rates or even in the same direction! Therefore, drawing a conclusion about residential property taxes over the past 25 years based solely on the nominal tax rate would almost assuredly result in a false result.

[28] See Minutes, Interim Property Tax Committee, October 30, 1998; available at Legislative Services Division, Room 138, State Capitol, Helena, MT 59620.

[29] *State Policy Reports*, Vol. 14, issue 17, p. 13 (Sept. 1996). Even here comparisons are misleading, however. Just with the effects of SB 195 alone, "market values" were virtually frozen at CY 1993 levels. DOR analysis showed that market values had risen across the state by 43% on average by 1996. Using the 43% increase in market value figure and holding mill levies constant, Montana's effective rate would have been about 43% less than the 1.16% calculated for CY 1995, a substantial reduction to 0.66%, a level sufficient to drop Montana in the rankings from 19th highest all the way down to 37th and below all of its neighbors except Wyoming (0.53% & 47th.)

[30] *Tax Rates and Tax Burdens in the District of Columbia: A Nationwide Comparison*, District of Columbia Department of Revenue and Finance, June 1996.

☞ For fiscal year 1995, total state and local *property* taxes in Montana, as a percentage of total personal income, were 5.01%, ranking Montana 6th highest nationally. Nationally, the average rate was 3.6%. New Hampshire's 6.2% ranked highest and Alabama's 1.21% lowest. Regionally, some other states were (by percent and by rank): Wyoming, 4.69%, 11th; Nebraska, 4.38%, 12th; South Dakota, 3.99%, 17th; Oregon, 3.92%, 18th; Washington, 3.63%, 24th; Colorado, 3.34%, 25th; North Dakota, 3.34%, 26th; Utah, 3.05%, 34th; Idaho, 3.04%, 35th.[31]

☞ For fiscal year 1995, state and local *property* taxes in Montana, on a *per capita* basis, were $879 per person, ranking Montana 15th highest nationally. Nationally, the average amount per capita was $774. New Jersey ranked highest at $1,540 and Alabama lowest at $216. Regionally some other states were: Wyoming, $948, 12th; Nebraska, $903, 14th; Washington, $805, 18th; Oregon, $789, 19th; South Dakota, $774, 20th; Colorado, $728, 25th; North Dakota, $618, 33rd; Idaho, $545, 36th; Utah, $513, 39th.[32]

☞ In 1976, the nominal tax rate applicable to homes and businesses was 12% of market value and the statewide average mill levy was about 200 mills. From that, the average effective tax rate (ETR) in 1976 in Montana for homes was about 2.4%. As noted previously, by 1995 the average ETR had declined to 1.16% on a typical suburban home. By 1998, with the effects of SB 195 accounted for, the ETR had declined to about 0.66%--less than one-third of the average ETR 20 years earlier.[33]

In making interstate or intrastate, interjurisdictional comparisons, reasons underlying most significant differences can be ascertained on a case-by-case basis. For the most part, differences in burdens are due to differences in tax philosophy (communicated through tax law) and differences in the consumption of publicly provided goods and services. Regardless of variations, what might seem obvious at first blush may, in fact, be specious.

From Assimilation to Integration

As the Committee members began to assimilate information gathered through observations, experience, reading, studying, and listening to and conversing with Montanans, they also began

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[31] *State Policy Reports*, Vol. 16, issue 16, p. 7 (Aug. 1998)

[32] Ibid. See also, Table A6 in "Michigan School Funding Switch Analyzed" in *State Tax Notes*; Vol. 15, No. 17; Oct. 26, 1998, pp. 1061-1083. (Tax Analysts, pub., 6830 N Fairfax Drive, Arlington, VA, 22213)

[33] Author's calculations, based on Department of Revenue and Legislative Fiscal Division reports.

to search, intellectually at least, for solutions to perceived problems. Although agreement among the members as to the problem(s) to be solved was not unanimous, there was general agreement in certain respects.

- Home owners felt that their property taxes were too high, had been increasing, and were likely to increase further.
- The owners of virtually every "class" of property believe that the property taxes they pay are overly burdensome. For nonresidential property owners, a common theme was that high property taxes are a significant impediment to economic competitiveness and, hence, to economic development.
- Changes in property taxes and the factors underpinning property taxes were not uniform across the state and would not likely become uniform. For example, market values have been and will continue to change at markedly different rates.
- To significantly reduce property taxes--"significantly" meaning something on the order of $500 million annually--would require another source of revenue. The only source of revenue of that magnitude remaining untapped in Montana is a statewide, general retail sales tax at about 4%.
- Due to the decision in *Roosevelt v. Department of Revenue*, the "temporary" nature of SB 195 may be more temporary than hoped for in 1997. A different approach to the taxation of Class Four property may be necessary prior to adjournment of the 56th Legislature.
- The specter of CI-75 looms large. If adopted, CI-75 may preclude many of the options historically available to policymakers. Even if CI-75 fails, the initiative process may be used again in the future to attempt reforms that the Legislature has been unable to achieve or even unwilling to consider.[34]
- If there is a way to say it in a nonpejorative manner, there is substantial ignorance and misunderstanding about Montana's tax system.[35]

Even with some common agreement on underlying problems, the Committee faced the dilemma confronting the whole Legislature and, in fact, all of Montana: How can the "problems" be solved simply, legally, equitably, uniformly, and quickly?

SOLUTIONS

It may be human nature to solve problems. Isaac Newton invented calculus to solve equations proving gravity. Jonas Salk inoculated himself with the polio vaccine to solve the medical questions about the efficacy of his theories. Marc Andreesen invented or at least

[34] As noted in the Prologue, CI-75 was adopted by the electorate on November 3, 1998.

[35] As Will Rogers said, "We're all ignorant, just on different subjects."

perfected hypertext markup language or "html" in his Netscape browser so that lay people could communicate effectively and easily over the Internet. In their own way, each of these people saw a "problem" and went about creating a solution.

In a similar vein, members of the Interim Property Tax Committee identified "problems" in the state's approach to tax policy, particularly property taxes. Because it was the Committee's charge to "solve" the property tax dilemma and because the members of the Committee were, inherently, problem solvers, the outlines of solutions began taking shape quite early in the study process. After hours of discussion, examination, and reflection, individual members of the Committee began proposing alternatives early in 1998. Some of the solutions were confined to narrow aspects of property taxation; others called for totally new approaches or for comprehensive overhaul. The following is a summary of alternatives considered by the Committee.

Minor Options

Alternatives that were proposed and considered but rejected included the following options:

Increase the Penalty and Interest Provisions for Delinquent Property Taxes.

The initial theory was that taxpayers would be more likely to pay their property taxes in a timely manner if the financial disincentives for not paying were enhanced. After closer examination, it was determined that current penalty and interest provisions were sufficient.

Authorize Local Government to Impose a Local Option Bed Tax, Analogous to the Statewide "Accommodations" Tax.

With local governments struggling under the restrictions of I-105 and SB 195, the hypothesis was that providing an alternative source of revenue to local governments could result in decreased property tax burdens. Moreover, the alternative revenue would come mostly from persons not already burdened with property taxes within the jurisdiction imposing the optional levy. Support for and opposition to the alternative were both lukewarm and, as a result, the alternative was discarded.

Alternatives that were proposed, considered and forwarded to the 56th Legislature for further deliberation included the following options.

Authorize Local Option Sales Taxes.

Patterned after the "resort tax" concept, this alternative was intended to allow local officials and citizens to alleviate some of the local property tax burden by self-imposing a local sales tax. The local option sales tax alternative includes a requirement for a favorable vote by the local electorate.

Highlights of the local option sales tax alternative include:

- The maximum rate of local option tax is capped at 3%.
- At least 5% of local option tax revenue must be used to reduce local property taxes.
- The tax may be applied to goods and services sold by the following establishments:
  - hotels, motels, and other lodging or camping facilities;
  - restaurants, fast food stores, and other food service establishments;
  - taverns, bars, night clubs, lounges, and other public establishments that serve beer, wine, liquor, or other alcoholic beverages by the drink;
  - destination ski resorts and other destination recreational facilities; and
  - establishments that sell luxuries, loosely defined as any gift item, luxury item, or other item normally sold to the public or to transient visitors or tourists. "Luxuries" do not include food purchased unprepared or unserved, medicine, medical supplies and services, appliances, hardware supplies and tools, or any necessities of life. (See Appendix A, LC-SS-1A.001.)

Circuit Breaker Enhancement Alternative

Montana has at least three different methods by which lower-income home owners and elderly home owners may reduce their property tax burdens. First, a direct reduction in property taxes is available for all lower-income home owners under 15-6-134, MCA.

- For tax year 1998, the maximum income thresholds will be just under $17,000 for singles and just over $22,640 for marrieds or heads of households. The proposal would increase the thresholds to at least $20,000 for singles and to at least $25,000 for marrieds or heads of households.
- The minimum reduction would remain at 30% of property taxes assessed, and the maximum reduction would remain at 80% of taxes assessed.

An indirect reduction in property taxes through an income tax credit mechanism is available to lower-income elderly home owners and renters under 15-30-171, et seq., MCA.

- For tax year 1998, the maximum income threshold is $12,000 of "household income" (which means income from all sources received by everyone in the "household" less $6,300).
- The maximum credit available is limited to $1,000.

Under the alternative considered by the Committee, "social security" and "railroad retirement" income would be excludable from "household income" and the maximum available credit would be increased to $1,500.

Finally, there is a type of reverse annuity mortgage available for certain lower-income, elderly home owners through the Montana Department of Commerce. Employing the reverse annuity mortgage allows low-income seniors to use the equity in their home to pay for normal living expenses, including property taxes on the home. Without specifically recommending any revisions to the reverse annuity mortgage program, the Committee recommended that the Department of Revenue and the Department of Commerce do more to make eligible taxpayers aware of this program. (See Appendix A, LC9997.)

Business Equipment Exemption

The "business equipment" tax applies generally to the personal property owned by commercial enterprises in Montana. Currently, property taxes on business equipment are determined by multiplying the market value of property (typically determined through national appraisal guides or through depreciated value techniques) by a 6% statutory tax rate. The resulting "taxable value" is multiplied again by the jurisdictional mill levy.

For example, business equipment having a *market value* of $100,000 would have a *taxable value* of $6,000 that would be subjected to the jurisdictional mill levy, e.g., 420 mills, resulting in a tax bill of $2,520. Measured another way, the effective tax rate (i.e., taxes paid divided by the market value of the property) on the equipment in this example would be 2.52%

Under the proposed alternative, the first $25,000 or less of market value of Class Eight business equipment would be exempt from property taxation, thereby relieving, in total, a substantial number of small, main street businesses from the business equipment tax. Depending on the amount of business equipment owned by businesses and industrial enterprises, effects of the exemption to individual property owners would range from absolute exemption to minimal impact.

Under this option and using the figures from the above example, the $100,000 of business equipment would be reduced by $25,000, leaving $75,000 in market value. That amount would be multiplied by the 6% rate, resulting in a taxable value of $4,500. Applying the jurisdictional mill levy of 420 mills concludes in a tax bill of $1,890. The resulting effective tax rate of 1.89% compared to the prior 2.52% rate is a full 25% lower.

Comparatively, an enterprise with $1 million of business equipment would also receive the $25,000 exemption. Currently, by applying the same assumptions used previously, this entity would have business equipment with a *taxable value* of $60,000 (the $1 million time the 6% rate). The $60,000 in taxable value would be multiplied by the local mill levy, 420 mills in this

example, resulting in a tax bill of $25,200. Thus the current effective tax rate would again be 2.52%.

Under the proposed $25,000 exemption, the $1 million in business equipment would receive the $25,000 exemption, thus leaving $975,000 in market value. That market value multiplied by the 6% statutory rate results in a taxable value of $58,500. Following through by applying the mill levy of 420 mills, the tax bill would be $24,570 for an effective tax rate of 2.457%, a reduction of 2.5%

Any enterprise having business equipment with a total market value of $25,000 or less would have a 0% effective tax rate and a 100% reduction from current practice.

<u>Major Options</u>

Several alternatives that could probably be referred to as "major" were proposed and considered but were rejected, either overtly or passively. These proposals included the following options.

A Tax on Consumption

Mr. John Pester from Havre promoted to the Committee a plan that would significantly reduce property taxes by replacing property tax revenue with revenue generated from a tax on the consumption of goods and services. Although Mr. Pester provided considerable explanation of his proposal, detail and clarity was lacking. The Committee did not consider a formal proposal incorporating Mr. Pester's plan.

A Tax on Transactions

State Representative Paul Bankhead of Heron advanced an idea for a tax of 1% on all "transactions" between buyers and sellers, limited to the final sale or purchase. It was Representative Bankhead's contention that a 1% transaction tax would generate sufficient revenue to eliminate the state individual income tax (±$400 million annually) ***and*** all property taxes (±$800 million annually). Representative Bankhead also provided to the Committee extensive explanation of his proposal, but detail and clarity was lacking here as well. The Committee did not consider a formal proposal incorporating Representative Bankhead's proposal; consequently, his proposal will not be forwarded to the 56th Legislature for further consideration.

Just Stop Spending

Mr. Wes Higgins of Kalispell asserted that high taxes were merely a result of high spending. Therefore, his suggestion to the Committee was to "just stop spending". [36] In response to a question about what programs and services should be cut or eliminated if his "just stop spending" admonition was implemented, his answer was that nothing would have to be curtailed or eliminated. Mr. Higgins did not provide a written delineation of his proposal. The Committee did not consider a formal proposal containing Mr. Higgins' ideas; consequently, his proposal will not be forwarded to the 56th Legislature for further consideration.

Three other major alternatives were considered by the Committee and will be forwarded to the 56th Legislature for additional consideration, debate, refinement, and possible adoption. The major alternatives are outlined below.

Acquisition Value Alternative

California, in 1978, was the first state to adopt "acquisition value" as the basis for the taxation of property. Since then, Florida and Michigan, at least, have adopted some form of "acquisition value" for property tax purposes.

Under the "acquisition value" approach, real property, such as a home, a business, or an industrial plant, is valued for tax purposes at its market value as of some base year or, if the property has sold since the "base year", the value at which it was acquired by a new owner; thus, the term "acquisition value".

In states that have adopted some form of acquisition value for property tax purposes, there is commonly some annual, nominal change allowed in the base value. For example, in California, the annual rate of change in base value for tax purposes is inflation (measured by the consumer price index or CPI) or 2%, whichever is less. In Florida, the maximum change is the lesser of 3% or CPI. In either state, the "assessed" value of property, i.e., the "base value" calibrated by the annual adjustment factor, cannot exceed the "market" value of the property.

While an acquisition valuation system results in similar property being taxed at highly different levels, the literature indicates that the method has ample support among taxpayers within jurisdictions that have adopted the policy.

Highlights of this proposal include:

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[36] See Minutes, Interim Property Tax Committee, May 15, 1998, on file at Montana Legislative Services Division, Room 138, State Capitol, Helena, MT 59620-1706.

- The alternative forwarded by the Committee would apply the acquisition value method to both residential and commercial real estate and improvements, but not to agricultural land.
- The "assessed value" would be adjusted annually at the lesser of CPI inflation or 1%.
- At implementation, the "base value" would be "assessed value" for tax (calendar) year 1993 unless:
  - the property was bought or sold after January 1, 1993. If bought or sold after January 1, 1993, the base value would be the price at which the new owner acquired the property.
  - improvements were made to the property. All improvements would be valued at their market value as of the date of the improvement. The value of the improvement would be assessed, in each year, separately from the base value of the property and from other improvements.
  - the use of the property changed. For example, if residential property was converted to commercial property after January 1, 1993, the property would be appraised at its value as commercial property as of the date of the change in use.

By the time this alternative could be implemented, January 1, 2001, at the earliest, the 1993 "base values" would all have been adjusted by 1% for each year 1994 through 2000, inclusive. Thus, a property with a "base value" of $100,000 in 1993 would have an assessed value of $108,285 for tax year 2001.

Another significant highlight of this alternative is that commercial and residential property are initially treated the same *vis-a-vis* base value and annual adjustments. However, if a commercial property has not been bought or sold by January 1, 2013, the Department of Revenue is required to appraise the property at the then-current market value and record the newly determined value as the "assessed value" for property tax purposes. This process for revaluing commercial property would apply to any commercial property that had not been bought or sold or otherwise revalued within the most recent 20-year period, i.e., 1993-2013; 1994-2014; 1998-2018.

In contrast, a residential property with a 1993 "base year" value would retain the 1993 value (adjusted) until the property was bought or sold or otherwise improved.

This alternative is dependent upon the adoption of a constitutional amendment, without which it is questionable whether or not an acquisition value approach to property valuation for tax purposes would be legal. (See Appendix A, LC-AE-1A.001 and LC-AE-3A.002.)

Combination Alternative

An alternative combining several previously considered options was considered and forwarded by the Committee. Referred to as the "combination alternative", this option, as considered by the Committee, would:

- implement for 1999 the most recent (1996) market valuations for Class Four property, basically, homes and businesses;
- exempt from property taxation 25% of the first $100,000 or less of market value of a single-family residence occupied by the home owner for at least 8 months per year;
- reduce the statewide equalization levy for K-12 school equalization from 40 mills to 37 mills;
- reduce the statutory nominal tax rate on homes and businesses from 3.816% (1998) to 3.25% (1999 and thereafter).

This alternative focuses on providing substantial and immediate property tax relief to home owners but could provide significant relief to most commercial property as well. There would be no reduction in the amount of property taxes collected in the aggregate. Instead, taxes currently paid by home owners would be reduced and shifted to commercial, industrial, utility, and other taxpayers. It is implementable immediately, i.e., for tax year 1999.

The shifting that would occur under this option would accrue to different types (classes) of property in different ways. Home owners would gain the most relief, and commercial property could also gain significantly. Utility property, business equipment, and centrally assessed transportation property (railroads, airlines, etc.) would bear a somewhat higher proportion of the burden than they now do.

Different geographical areas of the state would also fare differently, some areas getting more (or less) relief than other areas, and some types of property in some areas benefiting more (or less) than the same types of property in other areas.

As proposed, this alternative would significantly mitigate the effects of the 1996 statewide reappraisal for most home owners in the state. However, like any solution to be applied statewide, individual home owners would likely experience some change in their actual property tax liabilities. (See Appendix A, LCSWAN-3.002.)

Comprehensive Reform Alternative

An option for extensively revising property taxes has been forwarded by the Committee for consideration by the 56th Legislature. As proposed, a 4% general, retail sales tax, capped constitutionally, would be imposed statewide and the revenue from the sales tax would be used to:

- reduce property taxes by about $500 million annually, which taxes are currently committed primarily to K-12 schools and the university system by:
  - exempting business equipment and livestock from property taxation (about $80 million); and
  - replacing approximately $400 million of property-tax-funded K-12 school costs with a like amount of state funding for K-12;
- provide sales tax rebates to certain (lower-income) individual income taxpayers;
- reduce the flat tax rate on automobiles and light trucks from 2% to 1.5% of value (about $20 million annually); and
- replace certain other revenue from eliminated property taxes.

The proposal would also:

- provide home owners an exemption from property taxation of 65% of the first $50,000 or less of market value of an owner-occupied residence;
- simplify the property tax system by eliminating the various statutory, nominal rates applied to the various classes of property for tax purposes and assessing all property subject to property taxation at 100% of value for tax purposes;
- limit future increases in property taxes;
- revise county classifications and debt limits for budgeting purposes; and
- repeal the remaining provisions of Initiative No. 105.

While the Legislature and the Governor could, conceivably at least, pass and approve this alternative, there is general agreement among policymakers and pundits that such a far-reaching proposal must be referred to the public.[37] Consequently, if the electorate approved the measure, it would be unlikely that this alternative could be implemented before January 1, 2000. More likely, implementation would be in mid-2000 or later. (See SB 258, 1997.)

SUMMARY AND CONCLUSION

Property taxes have been, are now, and likely will continue to be a matter of public and private discussions and concern, even irritation. Although commonly perceived to be a fairly simple matter, property taxation in its own right is a complicated matter. In the context of the state, local, and national tax systems, property taxation and its underlying policies are truly complex.

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[37] Under CI-75, now Article VIII, section 17, of the Montana constitution, the alternative would have to be segregate and referred to the electorate.

To the natural complexities of the interrelationships of tax bases, public desires, legal requirements, and fiscal capacities at the individual and macro levels must be added the unknowns of changes in demographics, economics, and public preferences in the future.

The Interim Property Tax Committee, composed of 12 diligent and committed legislators, was assigned a devilish task. The challenge of preparing a menu of alternatives for "reforming" the state's property tax system was not particularly difficult in and of itself. The greater challenge was in attempting to identify "reforms" that are simple, legal, equitable (whatever that means), and implementable within a very short timeframe.

Historical data contradict a number of common and widely held perceptions, including:

- Property taxes as a share of all state and local taxes have decreased significantly in the past 25 years, from about 50% of the total to about 40% of the total.
- The total of state and local taxes as a percentage of total personal income has remained remarkably stable over the past 25 years and is less now than it was 25 years ago.
- Growth in both total personal income and in per capita income has exceeded growth in property tax collections, especially in recent years.
- In the context of total property tax collections, agricultural land, timber land, natural resources, and business equipment each bear a substantially smaller share of the burden now than 25 years ago.

In contrast, several other commonly and widely held perceptions are borne out by historical data, including:

- In recent years, particularly since 1987, property tax collections on residential and commercial realty have accounted for an ever larger share of total property tax collections. The same may be said for utility property, especially centrally assessed electric and telephone property.
- Also since 1987, the rate of growth in property tax collections on residential and commercial realty has exceeded the growth rate in personal income, both total and per capita.

Throughout the interim, the Committee was regularly and consistently informed by citizens, especially home owners, that property taxes were too high. Simultaneously, the Committee was also admonished to "do something" to mitigate the burden. Some of the citizens noted the complexity and difficulty of effecting change; others, however, seemed to assess the process of reform as a simple one if legislators would "just do it".

In the final analysis, the Committee settled upon alternatives that have been considered repeatedly over the decades. Among the major alternatives, all three have been attempted during the 1990s--the comprehensive reform option in 1993 (SB 235); the acquisition value option in 1995 (CA 28); and alternatives considered in 1997 (but rejected) and consolidated in the combination option. For good or ill, each of the attempts failed.

With the convening of the 56th Legislative Session in January 1999, state senators and representatives will again visit the issues associated with property taxes and tax policy generally. The effort exerted by the Interim Property Tax Committee over the 1997-98 interim should help to raise the level of discourse.

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APPENDIX A
DRAFT LEGISLATION

The Interim Property Tax Committee considered a number of alternatives for reforming Montana's property tax system and forwards the concepts contained in the following bill drafts for consideration by the 56th Legislature. None of the draft bills was specifically sanctioned by the Committee, but each of the drafts garnered sufficient Committee support to be included on the "menu of alternatives" required by the enabling legislation, Senate Bill No. 195 (Ch. 463, L. 1997).

Nature of Draft Legislation	Identifier
Local option sales tax	LC-SS-1A.001
Enhancing circuit breakers	LC 9997
Business equipment exemption	LC 9996
Acquisition value: constitutional amendment	LC-AE-1A.001
Acquisition value: enabling legislation	LC-AE-3A.002
Combination option	LCSWAN-3.002

In discussing the "comprehensive reform" option, the Committee relied on and referred to Senate Bill No. 258 (1997) as a guide. As drafted, SB 258 would have enacted a 4% statewide, general retail sales tax and would have used the revenue to overhaul the property tax system and reduce property taxes in a variety of way. SB 258 was a lengthy bill and is not reprinted here, but copies are available at the Legislative Services Division, Room 138, State Capitol, Helena, MT 59620.

**** Bill No. ***

Introduced By *************

By Request of the **********

A Bill for an Act entitled: "An Act allowing all counties and municipalities to adopt a local option sales tax; requiring that a minimum of 5% of local option sales tax revenue levied by a municipality or county be used to reduce property taxes; providing for the distribution of local option sales tax revenue; prohibiting double taxation; amending sections 7-6-1501, 7-6-1502, 7-6-1503, 7-6-1504, 7-6-1505, 7-6-1506, 7-6-1507, 7-6-1508, 7-6-1531, and 7-6-1509, MCA; providing for transition; and providing an effective date."

Be it enacted by the Legislature of the State of Montana:

Section 1. Section 7-6-1501, MCA, is amended to read:

"**7-6-1501.** ~~**Resort**~~ **Local option sales tax -- definitions.** As used in 7-6-1501 through 7-6-1509, the following definitions apply:

(1) "Luxuries" means any gift item, luxury item, or other item normally sold to the public or to transient visitors or tourists. The term does not include food purchased unprepared or unserved, medicine, medical supplies and services, appliances, hardware supplies and tools, or any necessities of life.

(2) "Medical supplies" means items that are sold to be used for curative, prosthetic, or medical maintenance purposes, whether or not prescribed by a physician.

(3) "Medicine" means substances sold for curative or remedial properties, including both physician prescribed and over-the-counter medications.

~~(4) "Resort area" means an area that:~~

~~(a) is an unincorporated area and is a defined contiguous geographic area;~~

~~(b) has a population of less than 2,500 according to the most recent federal census or federal estimate;~~

~~(c) derives the major portion of its economic well-being from businesses catering to the recreational and personal needs of persons traveling to or through the area~~

~~for purposes not related to their income production; and~~

~~(d) has been designated by the department of commerce as a resort area prior to its establishment by the county commissioners as provided in 7-6-1508.~~

~~(5) "Resort community" means a community that:~~

~~(a) is an incorporated municipality;~~

~~(b) has a population of less than 5,500 according to the most recent federal census or federal estimate;~~

~~(c) derives the primary portion of its economic well-being related to current employment from businesses catering to the recreational and personal needs of persons traveling to or through the municipality for purposes not related to their income production; and~~

~~(d) has been designated by the department of commerce as a resort community.~~"

Section 2. Section 7-6-1502, MCA, is amended to read:

"**7-6-1502.** ~~**Resort community**~~ **Local option taxing authority -- specific delegation.** As required by 7-1-112, 7-6-1501 through 7-6-1507 specifically delegate to the electors of each respective ~~resort community~~ municipality or county the power to authorize their municipality or county to impose a ~~resort~~ local option sales tax within the county or within the corporate boundary of the municipality as provided in 7-6-1501 through 7-6-1507."

Section 3. Section 7-6-1503, MCA, is amended to read:

"**7-6-1503. Limit on ~~resort~~ local option sales tax rate -- goods and services subject to tax.** (1) The rate of the ~~resort~~ local option sales tax must be established by the election petition or resolution provided for in 7-6-1504, but the rate may not exceed 3%.

(2) (a) The ~~resort~~ local option sales tax is a tax on the retail value of all goods and services sold, except for goods and services sold for resale, within the ~~resort community~~ municipality or ~~area~~ county by the following establishments:

(I) hotels, motels, and other lodging or camping facilities;

(ii) restaurants, fast food stores, and other food service establishments;

(iii) taverns, bars, night clubs, lounges, and other public establishments that serve beer, wine, liquor, or other alcoholic beverages by the drink; and

(iv) destination ski resorts and other destination recreational facilities.

(b) Establishments that sell luxuries shall collect a tax on such luxuries."

Section 4. Section 7-6-1504, MCA, is amended to read:

"**7-6-1504.** **~~Resort~~** **<u>Local option sales</u> tax -- election required -- procedure -- notice.** (1) A ~~resort community~~ <u>municipality</u> or ~~area~~ <u>county</u> may not impose or, except as provided in 7-6-1505, amend or repeal a ~~resort~~ <u>local option sales</u> tax unless the ~~resort~~ <u>local option sales</u> tax question has been submitted to the electorate of the ~~resort community~~ <u>municipality</u> or ~~area~~ <u>county</u> and approved by a majority of the electors voting on the question.

(2) The ~~resort~~ <u>local option sales</u> tax question may be presented to the electors of:

(a) a ~~resort community~~ <u>municipality</u> by a petition of the electors as provided by 7-1-4130, 7-5-132, and 7-5-134 through 7-5-137 or by a resolution of the governing body of the ~~resort community~~ <u>municipality</u>; or

(b) a ~~resort area~~ <u>county</u> by a resolution of the board of county commissioners~~, following receipt of a petition of electors as provided in 7-6-1508.~~ <u>or by a petition of electors as provided by 7-1-4130, and 7-5-131 through 7-5-137.</u>

~~(3) If a resort area is in more than one county, the resort tax question must be presented to and approved by the electors in the resort area of each county.~~

~~(4)~~ <u>(3)</u> The petition or resolution referring the taxing question must state:

(a) the rate of the ~~resort~~ <u>local option sales</u> tax;

(b) the duration of the ~~resort~~ <u>local option sales</u> tax;

(c) the date when the tax becomes effective, which date may not be earlier than 35 days after the election; and

(d) the purposes that may be funded by the ~~resort~~ <u>local option sales</u> tax revenue.

~~(5)~~ <u>(4)</u> Upon receipt of an adequate petition, the governing body may:

(a) call a special election on the ~~resort~~ <u>local option sales</u> tax question; or

(b) have the ~~resort~~ <u>local option sales</u> tax question placed on the ballot at the next regularly scheduled election.

~~(6)~~ <u>(5)</u> (a) Before the ~~resort~~ <u>local option sales</u> tax question is submitted to the electorate of a ~~resort community~~ <u>municipality</u> or ~~area~~ <u>a county</u>, the governing body of

the ~~resort community~~ municipality or the board of county commissioners ~~in the county in which the resort area is located~~, as applicable, shall publish notice of the goods and services subject to the ~~resort~~ local option sales tax, in a newspaper that meets the qualifications of subsection ~~(6)(b)~~ (5)(b). The notice must be published twice, with at least 6 days separating publications. The first publication must be no more than 30 days prior to the election and the last no less than 3 days prior to the election.

(b) The newspaper must be:

(i) of general, paid circulation with a second-class mailing permit;

(ii) published at least once a week; and

(iii) published in the county where the election will take place.

~~(7)~~ (6) The question of the imposition of a ~~resort~~ local option sales tax may not be placed before the electors more than once in any fiscal year."

Section 5. Section 7-6-1505, MCA, is amended to read:

"**7-6-1505.** **~~Resort~~ Local option sales tax administration.** (1) In this section, "governing body" means:

(a) the governing body of a ~~resort community~~ municipality;

(b) if the ~~resort~~ local option sales tax has been approved by the electors of a ~~resort area~~ county, the board of county commissioners; or

(c) if the electors of the resort area establish a resort area district, the district board of directors.

(2) Not less than 30 days prior to the date that the ~~resort~~ local option sales tax becomes effective, the governing body shall enact an administrative ordinance governing the collection and reporting of the ~~resort~~ local option sales taxes. This administrative ordinance may be amended at any time ~~as may be necessary~~ to effectively administer the ~~resort~~ local option sales tax.

(3) The administrative ordinance must specify:

(a) the times that taxes collected by businesses are to be remitted to the governing body;

(b) the office, officer, or employee of the governing body responsible for receiving and accounting for the ~~resort~~ local option sales tax receipts;

(c) the office, officer, or employee of the governing body responsible for

enforcing the collection of ~~resort~~ local option sales taxes and the methods and procedures to be used in enforcing the collection of ~~resort~~ local option sales taxes due; and

(d) the penalties for failure to report taxes due, failure to remit taxes due, and violations of the administrative ordinance. The penalties may include:

(I) criminal penalties not to exceed a fine of $1,000 or 6 months' imprisonment, or both;

(ii) civil penalties if the governing body prevails in a suit for the collection of ~~resort~~ local option sales taxes, not to exceed 50% of the ~~resort~~ local option sales taxes found due plus the costs and attorney fees incurred by the governing body in the action;

(iii) revocation of a county or municipal business license held by the offender; and

(iv) any other penalties that may be applicable for violation of an ordinance.

(4) The administrative ordinance may include:

(a) further clarification and specificity in the categories of goods and services that are subject to the ~~resort~~ local option sales tax consistent with 7-6-1503;

(b) authorization for business administration and prepayment discounts. The discount authorization may allow each vendor and commercial establishment to:

(I) withhold up to 5% of the ~~resort~~ local option sales taxes collected to defray their costs for the administration of the tax collection; or

(ii) receive a refund of up to 5% of the ~~resort~~ local option sales tax payment received from them by the governing body 10 days prior to the collection due date established by the administrative ordinance.

(c) other administrative details necessary for the efficient and effective administration of the tax."

Section 6. Section 7-6-1506, MCA, is amended to read:

"7-6-1506. Use of ~~resort community~~ local option sales tax revenues -- bond issue -- pledge. (1) Unless otherwise restricted by the voter-approved tax authorization provided for in 7-6-1504, a ~~resort community~~ municipality or county may appropriate and expend revenues derived from a ~~resort~~ local option sales tax for any activity, undertaking, or administrative service that the municipality or county is authorized by

law to perform, including costs resulting from the imposition of the tax.

(2) A ~~resort community~~ municipality or county may issue bonds to provide, install, or construct any of the public facilities, improvements, or undertakings authorized under 7-7-4101, 7-7-4404, and 7-12-4102. Bonds issued under this section must be authorized by a resolution of the governing body, stating the terms, conditions, and covenants of the municipality as the governing body considers appropriate. The bonds may be sold at a discount at a public or private sale.

(3) A ~~resort community~~ municipality or county may pledge for repayment of bonds issued under this section the revenues derived from a ~~resort~~ local option sales tax, special assessments levied for and revenues collected from the facilities, improvements, or undertakings for which the bonds are issued, and any other source of revenue authorized by the legislature to be imposed or collected by the ~~resort community~~ municipality or county. Such bonds do not constitute debt for purposes of any statutory debt limitation, provided that in the resolution authorizing the issuance of the bonds the municipality or county determines that the ~~resort~~ local option sales tax revenues, special assessments levied for and revenues from such facilities, improvements or undertakings, or other sources of revenue, if any, pledged to the payment of the bonds will be sufficient in each year to pay the principal ~~thereof~~ of the bonds and interest ~~thereon~~ on the bonds when due. Bonds may not be issued pledging proceeds of the ~~resort~~ local option sales tax for repayment unless the municipality or county in the resolution authorizing issuance of the bonds determines that in any fiscal year the annual revenues expected to be derived from the ~~resort~~ local option sales tax, less the amount required to reduce property taxes pursuant to 7-6-1507, equals at least 125% of the average amount of the principal and interest payable from the ~~resort~~ local option sales tax revenues on the bonds and any other outstanding bonds payable from the ~~resort~~ local option sales tax except any bonds to be refunded upon the issuance of the proposed bonds."

Section 7. Section 7-6-1507, MCA, is amended to read:

"7-6-1507. ~~Resort community~~ Local option sales tax -- municipal or county property tax relief. (1) Annually anticipated receipts from the ~~resort~~ local option sales tax imposed by a municipality or by a county must be applied to reduce the municipal or county property tax levy for the fiscal year in an amount equal to ~~at least~~ not less than

5% of the ~~resort~~ local option sales tax revenues derived during the preceding fiscal year.

(2) A ~~resort community~~ municipality or county that received more ~~resort~~ local option sales tax revenues than had been included in the annual ~~municipal~~ budget shall establish a ~~municipal~~ property tax relief fund. All ~~resort~~ local option sales tax revenues received in excess of the budget amount must be placed in the fund. The entire fund must be used to replace ~~municipal~~ property taxes in the ensuing fiscal year."

Section 8. Section 7-6-1508, MCA, is amended to read:

"7-6-1508. Establishment of a resort area -- taxing authority -- approval by electorate. (1) The establishment of a resort area for the purpose of imposing a ~~resort~~ local option sales tax may be initiated by a written petition to the board of county commissioners of the county in which the area is located. The petition must contain a description of the proposed resort area and must be signed by at least 15% of the electors residing in the proposed area.

(2) The petition must include a proposal to impose a ~~resort~~ local option sales tax within the proposed resort area, including the rate, duration, effective date, and purpose of the tax as provided in 7-6-1504.

(3) Upon receiving a petition to establish a resort area, the board of county commissioners shall present the question to the electors residing in the proposed resort area as provided in 7-6-1504."

Section 9. Section 7-6-1531, MCA, is amended to read:

"7-6-1531. Resort area district -- definitions. For the purposes of 7-6-1531 through 7-6-1550, unless the context requires otherwise, the following definitions apply:

(1) "Board" means the board of directors of the resort area district.

(2) "Resort area" means a resort area created under 7-6-1508 and:

(a) is an unincorporated area and a defined contiguous geographic area;

(b) has a population of less than 2,500 according to the most recent federal census or federal estimate;

(c) derives the major portion of its economic well-being from businesses catering to the recreational and personal needs of persons traveling to or through the area for purposes not related to their income production; and

(d) has been designated by the department of commerce as a resort area prior to its establishment by the county commissioners as provided in 7-6-1508.

(3) "Resort area district" means a district created under 7-6-1531 through 7-6-1550 that has been established as a resort area under 7-6-1508."

Section 10. Section 7-6-1509, MCA, is amended to read:

"**7-6-1509. Use of resort area tax.** (1) (a) Except as provided in subsection (1)(b) or unless otherwise provided by the resolution approved by the electors under 7-6-1504, the board of county commissioners shall appropriate and spend revenue derived from a ~~resort area~~ local option sales tax for the purpose stated in the resolution.

(b) If the electors of a resort area have established a resort area district, the district board of directors shall appropriate and spend revenue derived from a ~~resort area~~ local option sales tax for the purpose stated in the resolution.

(2) If the electors of a resort area have not established a resort area district, the resort area shall reimburse the board of county commissioners for costs associated with the collection, administration, and litigation of the resort area tax."

NEW SECTION. **Section 11. Distribution of tax proceeds.** (1) A local option sales tax imposed by the county must be levied countywide. Unless otherwise provided by agreement with municipalities, the county shall distribute local option sales tax revenue to the municipalities in the following manner:

(a) 50% of the amount collected in the county based on the ratio of population of the municipality to the population of the county derived from the most recent estimates by the U.S. bureau of the census, or if estimates are not available, derived from the most recent decennial U.S. census; and

(b) 50% based on the point of origin of the local option sales tax revenue.

(2) For the purposes of revenue distribution under this section, a resort area or resort area district must be treated in the same manner as a municipality.

NEW SECTION. **Section 12. Double taxation prohibited.** (1) A local option sales tax may not be levied on the same person or transaction by more than one local government, including a resort area or resort area district.

(2) If the electorate of a county approves a local option sales tax after the electorate of a municipality, resort area, or resort area district in the county has approved a local option sales tax on the same person or transaction at the same or a higher rate than the tax imposed by the county, persons or transactions in the municipality, resort area, or resort area district are exempt from the county tax as long as the local option sales tax imposed by the municipality, resort area, or resort area district is in effect. If the local option sales tax imposed by the municipality, resort area, or resort area district is at a lower rate than the county tax, the governing body of the municipality or the board, as applicable, shall repeal the resort tax without a vote of the electorate.

(3) A municipality, resort area, or resort area district may not enact a local option sales tax if a local option sales tax is in effect within the county within which the municipality, resort area, or resort area district lies.

NEW SECTION. **Section 13. Transition.** (1) A resort tax that was enacted in a resort community, resort area, or resort area district prior to [the effective date of this act] remains in effect as a local option sales tax under the provisions of [this act] until:

(a) the rights and duties that matured, penalties that were incurred, or proceedings that were begun before [the effective date of this act] have been satisfied, resolved, or otherwise terminated under the original requirements authorizing the resort tax;

(b) the electorate of the municipality, resort area, or resort area district repeals the original authority to enact the resort tax and enacts instead a local option sales tax under the provisions of [this act] or dissolves the resort area district; or

(c) the electorate of a county enacts a local option sales tax under the provisions of [this act].

NEW SECTION. **Section 14. Saving clause.** [This act] does not affect rights and duties that matured, penalties that were incurred, or proceedings that were begun before [the effective date of this act].

NEW SECTION. **Section 15. Effective date.** [This act] is effective on passage an approval.

-END-

{Gordon Higgins/Dave Bohyer
Montana Legislative Services
(406) 444-3064}

**** Bill No. ****

Introduced By *************

By Request of the *********

A Bill for an Act entitled: "An Act increasing the income thresholds for eligibility under the property tax assistance program; changing the definition of "gross household income" to exclude Railroad Retirement benefits and benefits received under federal social security; adjusting the elderly residential property tax credit multiplier; amending sections 15-6-134, 15-30-171, and 15-30-176, MCA; providing a retroactive applicability date; and providing an effective date."

Be it enacted by the Legislature of the State of Montana:

Section 1. Section 15-6-134, MCA, is amended to read:

"15-6-134. Class four property -- description -- taxable percentage. (1) Class four property includes:

(a) all land, except that specifically included in another class;

(b) all improvements, including trailers, manufactured homes, or mobile homes used as a residence, except those specifically included in another class;

(c) the first $100,000 or less of the market value of any improvement on real property, including trailers, manufactured homes, or mobile homes, and appurtenant land not exceeding 5 acres owned or under contract for deed and actually occupied for at least 7 months a year as the primary residential dwelling of any person whose total income from all sources, including net business income and otherwise tax-exempt income of all types but not including social security income paid directly to a nursing home, is not more than $15,000 for a single person or $20,000 for a married couple or a head of household, as adjusted according to subsection (2)(b)(ii). For the purposes of this subsection (1)(c), net business income is gross income less ordinary operating expenses but before deducting depreciation or depletion allowance, or both.

(d) all golf courses, including land and improvements actually and necessarily used for that purpose, that consist of at least nine holes and not less

than 3,000 lineal yards; and

(e) all improvements on land that is eligible for valuation, assessment, and taxation as agricultural land under 15-7-202, including 1 acre of real property beneath improvements on land described in 15-6-133(1)(c). The 1 acre must be valued at market value.

(2) Class four property is taxed as follows:

(a) (i) Except as provided in 15-24-1402 or 15-24-1501 and subsection (2)(a)(ii) of this section, property described in subsections (1)(a), (1)(b), and (1)(e) of this section is taxed at 3.86% of its market value.

(ii) The taxable percentage rate in subsection (2)(a)(I) must be adjusted downward by subtracting 0.022 percentage points each year until the tax rate is equal to or less than 2.78%.

(b) (i) Property qualifying under the property tax assistance program in subsection (1)(c) is taxed at the rate provided in subsection (2)(a)(ii) of its market value multiplied by a percentage figure based on income and determined from the following table:

Income Single Person	Income Married Couple Head of Household	Percentage Multiplier
$0 - $ ~~6,000~~ 11,000	$0 -$ ~~8,000~~ 13,000	20%
~~6,001~~ 11,001 - ~~9,200~~ 14,200	~~8,001~~ 13,001 - ~~14,000~~ 19,000	50%
~~9,201~~ 14,201 - ~~15,000~~ 20,000	~~14,001~~ 19,001 - ~~20,000~~ 25,000	70%

(ii) The income levels contained in the table in subsection (2)(b)(i) must be adjusted for inflation annually by the department of revenue. The adjustment to the income levels is determined by:

(A) multiplying the appropriate dollar amount from the table in subsection (2)(b)(i) by the ratio of the PCE for the second quarter of the year prior to the year of application to the PCE for the second quarter of 1995; and

(B) rounding the product thus obtained to the nearest whole dollar amount.

(iii) "PCE" means the implicit price deflator for personal consumption expenditures as published quarterly in the Survey of Current Business by the bureau of economic analysis of the U.S. department of commerce.

(c) Property described in subsection (1)(d) is taxed at one-half the taxable

percentage rate established in subsection (2)(a)(i).

(3) Within the meaning of comparable property, as defined in 15-1-101, property assessed as commercial property is comparable only to other property assessed as commercial property and property assessed as other than commercial property is comparable only to other property assessed as other than commercial property."

{*Internal References to 15-6-134:*
15-6-133 15-6-151 15-7-103}

Section 2. Section 15-30-171, MCA, is amended to read:

"15-30-171. Residential property tax credit for elderly -- definitions. As used in 15-30-171 through 15-30-179, the following definitions apply:

(1) "Claim period" means the tax year for individuals required to file Montana individual income tax returns and the calendar year for individuals not required to file returns.

(2) "Claimant" means a person who is eligible to file a claim under 15-30-172.

(3) "Department" means the department of revenue.

(4) "Gross household income" means all income received by all individuals of a household while they are members of the household~~.~~, excluding all Railroad Retirement benefits and payments received under federal social security.

(5) "Gross rent" means the total rent in cash or its equivalent actually paid during the claim period by the renter or lessee for the right of occupancy of the homestead pursuant to an arm's-length transaction with the landlord.

(6) "Homestead" means:

(a) a single-family dwelling or unit of a multiple-unit dwelling that is subject to property taxes in Montana and as much of the surrounding land, but not in excess of 1 acre, as is reasonably necessary for its use as a dwelling; or

(b) a single-family dwelling or unit of a multiple-unit dwelling that is rented from a county or municipal housing authority as provided in Title 7, chapter 15.

(7) "Household" means an association of persons who live in the same dwelling, sharing its furnishings, facilities, accommodations, and expenses. The

term does not include bona fide lessees, tenants, or roomers and boarders on contract.

(8) "Household income" means the amount obtained by subtracting $6,300 from gross household income.

(9) "Income" means federal adjusted gross income, without regard to loss, as that quantity is defined in the Internal Revenue Code of the United States, plus all nontaxable income, including but not limited to:

(a) the gross amount of any pension or annuity, including Railroad Retirement Act benefits and veterans' disability benefits;

(b) the amount of capital gains excluded from adjusted gross income;

(c) alimony;

(d) support money;

(e) nontaxable strike benefits;

(f) cash public assistance and relief;

(g) payments and interest on federal, state, county, and municipal bonds; and

(h) all payments received under federal social security except social security income paid directly to a nursing home.

(10) "Property tax billed" means taxes levied against the homestead, including special assessments and fees but excluding penalties or interest during the claim period.

(11) "Rent-equivalent tax paid" means 15% of the gross rent."

{*Internal References to 15-30-171:*
15-30-171   15-30-172   15-30-173   15-30-174
15-30-175   15-30-176   15-30-177   15-30-179}

Section 3. Section 15-30-176, MCA, is amended to read:

"**15-30-176. Residential property tax credit for elderly -- computation of relief.** The amount of the tax credit granted under the provisions of 15-30-171 through 15-30-179 is computed as follows:

(1) In the case of a claimant who owns the homestead for which a claim is made, the credit is the amount of property tax billed less the deduction specified in subsection (4).

(2) In the case of a claimant who rents the homestead for which a claim is

made, the credit is the amount of rent-equivalent tax paid less the deduction specified in subsection (4).

(3) In the case of a claimant who both owns and rents the homestead for which a claim is made, the credit is:

(a) the amount of property tax billed on the owned portion of the homestead less the deduction specified in subsection (4); plus

(b) the amount of rent-equivalent tax paid on the rented portion of the homestead less the deduction specified in subsection (4).

(4) Property tax billed and rent-equivalent tax paid are reduced according to the following schedule:

Household income	Amount of reduction
0-999	$0
1,000-1,999	$0
2,000-2,999	the product of~~.006~~.009 times the household income
3,000-3,999	the product of~~.016~~.024 times the household income
4,000-4,999	the product of~~.024~~.036 times the household income
5,000-5,999	the product of~~.028~~.042 times the household income
6,000-6,999	the product of~~.032~~.048 times the household income
7,000-7,999	the product of~~.035~~.052 times the household income
8,000-8,999	the product of~~.039~~.058 times the household income
9,000-9,999	the product of~~.042~~.063 times the household income
10,000-10,999	the product of~~.045~~.067 times the household income
11,000-11,999	the product of~~.048~~.071 times the household income
12,000 & over	the product of~~.050~~.075 times the household income

(5) The credit granted may not exceed $~~1,000~~1,500."

{Internal References to 15-30-176:
15-30-171 15-30-172* 15-30-173* 15-30-174**
15-30-175 15-30-176* 15-30-177* 15-30-179*}*

NEW SECTION. **Section 4. {standard} Retroactive applicability.** [This act] applies retroactively, within the meaning of 1-2-109, to tax years beginning after December 31, 1998.

NEW SECTION. **Section 5. {standard} Effective date.** [This act] is effective October 1, 1999.

- END -

{Name Gordon Higgins
Title Legislative Research Analyst
Agency Legislative Services Division
Phone 444-3064
E-Mail gohiggins@mt.gov}

**** Bill No. ****

Introduced By *************

By Request of the *********

A Bill for an Act entitled: "An Act exempting from property tax the first $25,000 or less of market value of class eight property in a single ownership; amending sections 15-6-138, and 15-6-201, MCA; and providing an applicability date."

Be it enacted by the Legislature of the State of Montana:

Section 1. Section 15-6-138, MCA, is amended to read:

"15-6-138. Class eight property -- description -- taxable percentage. (1) Class eight property includes:

(a) all agricultural implements and equipment;

(b) all mining machinery, fixtures, equipment, tools ~~that are not exempt under 15-6-201(1)(r)~~, and supplies except those included in class five;

(c) all manufacturing machinery, fixtures, equipment, tools ~~that are not exempt under 15-6-201(1)(r)~~, and supplies except those included in class five;

(d) all goods and equipment that are intended for rent or lease, except goods and equipment that are specifically included and taxed in another class;

(e) special mobile equipment as defined in 61-1-104;

(f) furniture, fixtures, and equipment, except that specifically included in another class, used in commercial establishments as defined in this section;

(g) x-ray and medical and dental equipment;

(h) citizens' band radios and mobile telephones;

(i) radio and television broadcasting and transmitting equipment;

(j) cable television systems;

(k) coal and ore haulers;

(l) theater projectors and sound equipment; and

(m) all other property that is not included in any other class in this part, except that property that is subject to a fee in lieu of a property tax.

(2) As used in this section, "coal and ore haulers" means nonhighway vehicles that exceed 18,000 pounds per axle and that are primarily designed and used to transport coal, ore, or other earthen material in a mining or quarrying

environment.

(3) "Commercial establishment" includes any hotel; motel; office; petroleum marketing station; or service, wholesale, retail, or food-handling business.

(4) Except as provided in subsection (5), Class eight property is taxed at~~:~~

~~(a) 7% of its market value for tax year 1997; and~~

~~(b)~~ 6% of its market value for tax years beginning after December 31, 1997."

{*Internal References to 15-6-138:*
15-1-111 15-1-112 15-1-112 15-1-112
15-1-112 15-1-112 15-1-112 15-1-112
15-1-112 15-1-112 15-1-112 15-1-112
15-1-112 15-1-112 15-1-112 15-1-112
15-1-112 15-1-112 15-1-112}

Section 2. Section 15-6-201, MCA, is amended to read:

"**15-6-201. Exempt categories.** (1) The following categories of property are exempt from taxation:

(a) except as provided in 15-24-1203, the property of:

(i) the United States, except:

(A) if congress passes legislation that allows the state to tax property owned by the federal government or an agency created by congress; or

(B) as provided in 15-24-1103;

(ii) the state, counties, cities, towns, and school districts;

(iii) irrigation districts organized under the laws of Montana and not operating for profit;

(iv) municipal corporations;

(v) public libraries; and

(vi) rural fire districts and other entities providing fire protection under Title 7, chapter 33;

(b) buildings, with land that they occupy and furnishings in the buildings, that are owned by a church and used for actual religious worship or for residences of the clergy, together with adjacent land reasonably necessary for convenient use of the buildings;

(c) property used exclusively for agricultural and horticultural societies, for educational purposes, and for nonprofit health care facilities, as defined in 50-

5-101, licensed by the department of public health and human services and organized under Title 35, chapter 2 or 3. A health care facility that is not licensed by the department of public health and human services and organized under Title 35, chapter 2 or 3, is not exempt.

(d) property that is:

(i) owned and held by an association or corporation organized under Title 35, chapter 2, 3, 20, or 21;

(ii) devoted exclusively to use in connection with a cemetery or cemeteries for which a permanent care and improvement fund has been established as provided for in Title 35, chapter 20, part 3; and

(iii) not maintained and operated for private or corporate profit;

(e) property that is owned or property that is leased from a federal, state, or local governmental entity by institutions of purely public charity if the property is directly used for purely public charitable purposes;

(f) evidence of debt secured by mortgages of record upon real or personal property in the state of Montana;

(g) public museums, art galleries, zoos, and observatories that are not used or held for private or corporate profit;

(h) all household goods and furniture, including but not limited to clocks, musical instruments, sewing machines, and wearing apparel of members of the family, used by the owner for personal and domestic purposes or for furnishing or equipping the family residence;

(i) truck canopy covers or toppers and campers;

(j) a bicycle, as defined in 61-1-123, used by the owner for personal transportation purposes;

(k) motor homes;

(l) all watercraft;

(m) motor vehicles, land, fixtures, buildings, and improvements owned by a cooperative association or nonprofit corporation organized to furnish potable water to its members or customers for uses other than the irrigation of agricultural land;

(n) the right of entry that is a property right reserved in land or received by mesne conveyance (exclusive of leasehold interests), devise, or succession to enter land with a surface title that is held by another to explore, prospect, or dig

for oil, gas, coal, or minerals;

(o) (i) property that is owned and used by a corporation or association organized and operated exclusively for the care of persons with developmental disabilities, persons with mental illness, or persons with physical or mental impairments that constitute or result in substantial impediments to employment and that is not operated for gain or profit; and

(ii) property that is owned and used by an organization owning and operating facilities that are for the care of the retired, aged, or chronically ill and that are not operated for gain or profit;

(p) all farm buildings with a market value of less than $500 and all agricultural implements and machinery with a market value of less than $100;

(q) property owned by a nonprofit corporation that is organized to provide facilities primarily for training and practice for or competition in international sports and athletic events and that is not held or used for private or corporate gain or profit. For purposes of this subsection (1)(q), "nonprofit corporation" means an organization that is exempt from taxation under section 501(c) of the Internal Revenue Code and incorporated and admitted under the Montana Nonprofit Corporation Act.

(r) the first ~~$15,000~~ $25,000 or less of market value of ~~tools owned by the taxpayer that are customarily hand-held and that are used to:~~

~~(i) construct, repair, and maintain improvements to real property; or~~

~~(ii) repair and maintain machinery, equipment, appliances, or other personal~~ class eight property held in single ownership within a county;

(s) harness, saddlery, and other tack equipment;

(t) a title plant owned by a title insurer or a title insurance producer, as those terms are defined in 33-25-105;

(u) timber as defined in 15-44-102;

(v) all trailers as defined in 61-1-111, semitrailers as defined in 61-1-112, pole trailers as defined in 61-1-114, and travel trailers as defined in 61-1-131;

(w) all vehicles registered under 61-3-456;

(x) (i) buses, trucks having a manufacturer's rated capacity of more than 1 ton, and truck tractors, including buses, trucks, and truck tractors apportioned under Title 61, chapter 3, part 7; and

(ii) personal property that is attached to a bus, truck, or truck tractor that is

exempt under subsection (1)(x)(I); and

(y) motorcycles and quadricycles.

(2) (a) For the purposes of subsection (1)(e), the term "institutions of purely public charity" includes any organization that meets the following requirements:

(i) The organization qualifies as a tax-exempt organization under the provisions of section 501(c)(3), Internal Revenue Code, as amended.

(ii) The organization accomplishes its activities through absolute gratuity or grants. However, the organization may solicit or raise funds by the sale of merchandise, memberships, or tickets to public performances or entertainment or by other similar types of fundraising activities.

(b) For the purposes of subsection (1)(g), the term "public museums, art galleries, zoos, and observatories" means governmental entities or nonprofit organizations whose principal purpose is to hold property for public display or for use as a museum, art gallery, zoo, or observatory. The exempt property includes all real and personal property reasonably necessary for use in connection with the public display or observatory use. Unless the property is leased for a profit to a governmental entity or nonprofit organization by an individual or for-profit organization, real and personal property owned by other persons is exempt if it is:

(i) actually used by the governmental entity or nonprofit organization as a part of its public display;

(ii) held for future display; or

(iii) used to house or store a public display.

(3) The following portions of the appraised value of a capital investment in a recognized nonfossil form of energy generation or low emission wood or biomass combustion devices, as defined in 15-32-102, are exempt from taxation for a period of 10 years following installation of the property:

(a) $20,000 in the case of a single-family residential dwelling;

(b) $100,000 in the case of a multifamily residential dwelling or a nonresidential structure."

{*Internal References to 15-6-201:*
15-6-138 15-6-138 15-32-405 61-10-214}

<u>NEW SECTION.</u> **Section 3. Applicability.** [This act] applies to tax years

beginning after December 31, 1999.

- END -

{Name Gordon Higgins
Title Legislative Research Analyst
Agency Legislative Services Division
Phone 444-3064
E-Mail gohiggins@mt.gov}

LC-AE-1A.001

**** Bill No. ***

Introduced By *************

By Request of the **********

A Bill for an Act entitled: "An Act submitting to the qualified electors of Montana an amendment to Article VIII, Section 3, of the Montana Constitution to allow equalization of property values for property tax purposes to be based on classification and on acquisition values, and to limit changes in the valuation of certain property for tax purposes, if provided by law, to 1 percent a year; providing an effective date; and providing transition."

Be it enacted by the Legislature of the State of Montana:

NEW SECTION. **Section**

1. Article, VIII, section 3, of The Constitution is amended to read:

"**Section 3. Property tax administration** -- classification -- valuation -- limitation. (1)(a) ~~The~~ Subject to the provisions of subsections (1)(b) and (2), the state shall appraise, assess, and equalize the valuation of all property which is to be taxed in the manner provided by law.

(b) Equalized valuation may be achieved through the classification of property and may be based on acquisition value.

(2)(a) The value, for property tax purposes, of property in any class or subclass of property may, by law, be based on the acquisition value of the property.

(b) If the acquisition method of valuation is used for property tax purposes for property in any class or subclass, the annual change in the value of the property may not exceed the lesser of inflation as measured by the consumer price index (1967 = 100) or 1% unless, as provided by law:

(i) the ownership of the property changes; or

(ii) the character of the property changes due to use, classification or reclassification, addition, remodeling, improvement, or destruction other than

by natural disaster.

(c) If the conditions described in subsection (2)(b)(i) or (ii) occur, the value of the property for property tax purposes may change in any year by more than the general limit established in subsection (2)(b).

NEW SECTION. **Section 2. Effective date.** If approved by the electorate, this amendment is effective January 1, 2001.

NEW SECTION. **Section 3. Submission to electorate.** This amendment shall be submitted to the qualified electors of Montana at the general election to be held in November 2000 by printing on the ballot the full title of this act and the following:

[] FOR allowing property taxes to be based on acquisition value and allowing annual changes in valuation of property to be limited to 1%.

[] AGAINST allowing property taxes to be based on acquisition value and allowing annual changes in valuation of property to be limited to 1%.

NEW SECTION. **Section 4. Transition.** (1) If this amendment to the constitution is approved, the general limitation in the change of value applies for tax years beginning after January 1, 2001.

(2) To effect the transition, the department of revenue shall assess all property subject to the acquisition method of valuation at a base year value for the property defined as:

(a) the market value of the property as of January 1, 1993; or

(b)(i) if the property changed ownership, as provided by law under Art. VIII, section 3(2)(a)(i) of the constitution, after December 31, 1992, the sales price of the property, provided the sale was an arms-length transaction, plus the value due to any change in use, classification, or reclassification, plus the value of any addition, remodeling, improvement or destruction to the property after December 31, 1992, as of the date of the change; or

(ii) if the character of the property changed due to use, classification

or reclassification, addition, remodeling, improvement, or destruction other than by natural disaster, the change in value due to the change in use, classification, or reclassification, or addition, remodeling, improvement or destruction to the property after December 31, 1992 as of the date of the change.

(3) Whenever a sale is determined by the department of revenue to be other than an arms-length transaction, the department shall appraise the property at market value as of the date of the sale and the value established by the department is the base year value for the purposes of taxation.

(4) For each year after the base year value of the property has been established under subsection (2) or (3), the department of revenue shall adjust the value as provided by law pursuant to Art. VIII, section 3 of the constitution.

(5) A change in value pursuant to this section applies for tax purposes beginning January 1 following the change in value.

-END-

{Dave Bohyer - L43
Research Director
Montana Legislative Services
(406) 444-3064}

LC-AE-3A.002

**** Bill No. ***

Introduced By *************

By Request of the **********

A Bill for an Act entitled: "An Act implementing acquisition valuation as authorized by Art. VIII, sec. 3 of the Montana Constitution; providing statutorily for the acquisition method of valuation for certain real property and improvements; limiting the annual change in the value for tax purposes of certain real property and improvements; providing penalties for property that illegally received acquisition value treatment for property tax purposes; providing for certain notification of changes in the valuation of property for tax purposes; amending sections 15-6-134, 15-7-102, 15-7-111, 15-8-111, 15-10-412, and 15-36-323, MCA; providing an immediate effective date and a retroactive applicability date; and providing for transition."

Be it enacted by the Legislature of the State of Montana:

NEW SECTION. **Section 1. Assessment of class four property.** (1) Except as provided in subsection (2) or (3), class four property is reassessed as of January 1 in each tax year by adjusting the assessed value of the property as of December 31 of the preceding tax year by the lesser of the following:

(a) 1% of the assessed value of the property for the prior year; or

(b) the percent change in the consumer price index for all urban consumers, U.S. city average, all items 1967=100, or successor reports for the preceding calendar year as initially reported by the United States department of labor, bureau of labor statistics.

(2) The assessed value of a class four property may not exceed the market value of the property. If the assessed value of a class four property exceeds the market value of the property, the assessed value must be reduced to the market value.

(3)(a) Whenever the ownership of a class four property changes, the property must be assessed on January 1 following the change in ownership at the value at which the property changed ownership, provided the change in ownership was an arms-length

transaction.

(b) If a change in ownership of a class four property occurs but is not an arms-length transaction, the department shall determine the market value of the property and the market value as determined by the department becomes the assessed value of the property on January 1 following the change of ownership.

(4) Property that newly qualifies as class four property must be assessed as of January 1 of the year following qualification as class four property. After qualification and assessment as class four property, the assessed value of the property must be adjusted annually as provided in subsection (1)(a) or (1)(b).

(5)(a) Whenever there is a change, addition, or improvement to a class four property, the change, addition, or improvement must be assessed at market value as of January 1 after the change, addition, or improvement is substantially completed.

(b) A change, addition, or improvement does not include replacement of a portion of class four property damaged or destroyed by misfortune or calamity whenever the market value of the damaged or destroyed portion as replaced is not more than 125 percent of the market value of the damaged or destroyed portion. The value of any replaced class four property or portion of class four property that is in excess of 125 percent of the market value of the damaged or destroyed property is considered to be a change, addition, or improvement. Replaced class four property with a market value of less than 100% of the original property's market value must be assessed pursuant to subsection (6).

(c)(i) Changes, additions, or improvements include improvements made to common areas or other improvements made by the owner or by an owner association, which improvements directly benefit the class four property.

(ii) Any changes, additions, or improvements described in subsection (5)(c)(i) must be assessed at market value, and the market value must be apportioned among the parcels benefiting from the improvement.

(6) Whenever property is destroyed or removed and not replaced, the assessed value of the parcel must be reduced by the assessed value attributable to the destroyed or removed property.

(7)(a) Whenever property that has previously qualified as class four property ceases to qualify as class four property, the department shall reassess the property as

provided in 15-8-111.

(b) The value determined by the department under subsection (7)(a) is the assessed value of the property as of January 1 of the year following the disqualification of the property as class four property.

(8)(a) For the purpose of this section, a change in ownership means any sale, foreclosure, or transfer of legal title or beneficial title in equity to any person, except as provided in this subsection (8), and includes:

(i) for any class four property owned by a partnership, any substantive change in the partnership agreement, including the addition or substraction of partners or in the proportionate allocation of shares among the partners;

(ii) for any class four property owned by a subchapter S corporation, any substantive change in the ownership of the corporation, including the addition or substraction of owners or in the proportionate ownership of the corporation among the owners;

(iii) for any class four property owned by a corporation, the stock of which is publicly held or publicly traded, the point in time when more than 50% of the shares of the stock in the corporation have traded, regardless of the identity of the buyer or seller of the stock. In establishing the basis upon which the 50%-determination is made, the department shall, upon each valuation of the property for the purposes of this section, ascertain the number of the shares of stock in the corporation as reported in the most recent financial report of the corporation and the number of shares ascertained by the department in this manner is twice the number of shares that must be traded for a future acquisition revaluation to be triggered.

(b) There is no change of ownership if:

(i) subsequent to the change or transfer, the same person is the owner of the class four property and:

(A) the transfer of title is to correct an error; or

(B) the transfer is between legal and equitable title; or

(ii) the transfer is between husband and wife, including a transfer to a surviving spouse or a transfer due to a dissolution of marriage; or

(iii) upon the death of the owner, the transfer is between the owner and another for whom the property will qualify as class four property within 1 year of the death of

the owner, provided the new owner was legally or naturally dependent upon the owner immediately prior to the deceased owner's death.

(9) Only property that qualifies as class four property is subject to this section. No portion of property that is classified and assessed solely on the basis of character or use pursuant to 15-6-133 or 15-6-143 is subject to this section. Whenever property is classified and assessed under 15-6-133 or 15-6-143 and contains class four improvements under the same ownership, the portion of the property consisting of the residence and curtilage or of other class four improvements must be assessed separately for the assessment to be subject to the class four assessment provisions of this section.

(10) If a property qualifies as class four property, but the qualification is limited to the property owner's proportionate interest in the class four property, the provisions of this section apply only to the owner's proportionate interest.

(11)(a) Erroneous assessments of class four property assessed under this section may be corrected as provided in subsection (11)(b) or (11)(c), as applicable.

(b) If an error is made in arriving at any annual assessment under this section due to a material mistake of fact concerning an essential characteristic of the property, the assessment must be recalculated for every year for which the error was made.

(c) If changes, additions, or improvements are not assessed at market value as of the first January 1 after the changes, additions, or improvements were substantially completed, the department shall determine the market value for the changes, additions, or improvements for the year they were substantially completed. Assessments for subsequent years must be corrected, applying this section if applicable. If an assessment is revised pursuant to 15-8-601, the corrections made pursuant to this subsection must be used to recalculate the taxes due.

(12)(a) Except as provided in subsection (12)(b), if the department determines that, for any year or years within the prior 10 years, a person who was not entitled to the class four property assessment limitation granted under this section was granted the class four property assessment limitation, the department shall have recorded in the public records of the county a notice of tax lien against any property owned by that person in the county, and the property must be identified in the notice of tax lien. Property liened under this subsection (12) that is situated in this state is subject to the unpaid taxes, plus a penalty of 50 percent of the unpaid taxes for each year and 15 percent interest for each

year or portion of a year that the tax remains unpaid.

(b) Whenever a person who was not entitled to assessment under this section inadvertently receives the limitation pursuant to this section, the assessment of the class four property must be corrected as provided in subsection (11), and the person need not pay the unpaid taxes, penalties, or interest.

(13) Whenever a class four property that is commercial in nature has not, within the previous 20 years, changed ownership as described in this section, the department of revenue shall appraise the property at its current market value, which value becomes, on the next January 1, the new base value for the property. For the purposes of this subsection, apartments and other non-single-family residences having three or more units are considered commercial in nature.

Section 2. Section 15-6-134, MCA, is amended to read:

"**15-6-134. Class four property -- description -- taxable percentage.** (1) Class four property includes:

(a) all land, except that specifically included in another class;

(b) all improvements, including trailers, manufactured homes, or mobile homes used as a residence, except those specifically included in another class;

(c) the first $100,000 or less of the market value of any improvement on real property, including trailers, manufactured homes, or mobile homes, and appurtenant land not exceeding 5 acres owned or under contract for deed and actually occupied for at least 7 months a year as the primary residential dwelling of any person whose total income from all sources, including net business income and otherwise tax-exempt income of all types but not including social security income paid directly to a nursing home, is not more than $15,000 for a single person or $20,000 for a married couple or a head of household, as adjusted according to subsection (2)(b)(ii). For the purposes of this subsection (1)(c), net business income is gross income less ordinary operating expenses but before deducting depreciation or depletion allowance, or both.

(d) all golf courses, including land and improvements actually and necessarily used for that purpose, that consist of at least nine holes and not less than 3,000 lineal yards; and

(e) all improvements on land that is eligible for valuation, assessment, and

taxation as agricultural land under 15-7-202, including 1 acre of real property beneath improvements on land described in 15-6-133(1)(c). The 1 acre must be valued at market value.

(2) Class four property is taxed as follows:

(a) ~~(i)~~ Except as provided in 15-24-1402 or 15-24-1501 ~~and subsection (2)(a)(ii) of this section~~, property described in subsections (1)(a), (1)(b), and (1)(e) of this section is taxed at 3.86% of its market value.

~~(ii) The taxable percentage rate in subsection (2)(a)(i) must be adjusted downward by subtracting 0.022 percentage points each year until the tax rate is equal to or less than 2.78%.~~

(b) (i) Property qualifying under the property tax assistance program in subsection (1)(c) is taxed at the rate provided in subsection (2)(a)~~(ii)~~ of its market value multiplied by a percentage figure based on income and determined from the following table:

Income Single Person	Income Married Couple Head of Household	Percentage Multiplier
$0 - $ 6,000	$0 -$ 8,000	20%
6,001 - 9,200	8,001 - 14,000	50%
9,201 - 15,000	14,001 - 20,000	70%

(ii) The income levels contained in the table in subsection (2)(b)(i) must be adjusted for inflation annually by the department of revenue. The adjustment to the income levels is determined by:

(A) multiplying the appropriate dollar amount from the table in subsection (2)(b)(i) by the ratio of the PCE for the second quarter of the year prior to the year of application to the PCE for the second quarter of 1995; and

(B) rounding the product thus obtained to the nearest whole dollar amount.

(iii) "PCE" means the implicit price deflator for personal consumption expenditures as published quarterly in the Survey of Current Business by the bureau of economic analysis of the U.S. department of commerce.

(c) Property described in subsection (1)(d) is taxed at one-half the taxable percentage rate established in subsection (2)(a)~~(i)~~.

(3) Within the meaning of comparable property, as defined in 15-1-101, property assessed as commercial property is comparable only to other property assessed as commercial property and property assessed as other than commercial property is comparable only to other property assessed as other than commercial property."

Section 3. Section 15-7-102, MCA, is amended to read:

"15-7-102. Notice of classification and appraisal to owners -- appeals. (1) (a) The department shall mail to each owner or purchaser under contract for deed a notice of the classification of the land owned or being purchased and the appraisal of the improvements on the land only if one or more of the following changes pertaining to the land or improvements have been made since the last notice:

(i) change in ownership;

(ii) change in classification;

(iii) ~~except as provided in subsection (1)(b),~~ change in valuation; or

(iv) addition or subtraction of personal property affixed to the land.

~~(b) After the first year, the department is not required to mail the notice provided for in subsection (1)(a)(iii) if the change in valuation is the result of an incremental change in valuation caused by the phasing in of a reappraisal.~~

~~(c)~~(b) The notice must include the following for the taxpayer's informational purposes:

(i) the total amount of mills levied against the property in the prior year;

(ii) the amount of the prior year's taxes resulting from levied mills;

(iii) an estimate of the current year's taxes based on the prior year's mills; and

~~(ii)~~(iv) a statement that the notice is not a tax bill.

~~(d)~~(c) Any misinformation provided in the information required by subsection ~~(1)(c)~~ (1)(b) does not affect the validity of the notice and may not be used as a basis for a challenge of the legality of the notice.

(2) (a) Except as provided in subsection (2)(c), the department shall assign each assessment to the correct owner or purchaser under contract for deed and mail the notice of classification and appraisal on a standardized form, adopted by the department, containing sufficient information in a comprehensible manner designed to fully inform the taxpayer as to the classification and appraisal of the property and of changes over the

prior tax year.

(b) The notice must advise the taxpayer that in order to be eligible for a refund of taxes from an appeal of the classification or appraisal, the taxpayer is required to pay the taxes under protest as provided in 15-1-402.

(c) The department is not required to mail the notice of classification and appraisal to a new owner or purchaser under contract for deed unless the department has received the transfer certificate from the clerk and recorder as provided in 15-7-304 and has processed the certificate before the notices required by subsection (2)(a) are mailed. The date of mailing is the date reported to the county tax appeal board pursuant to 15-15-101.

(3) If the owner of any land and improvements is dissatisfied with the appraisal as it reflects the market value of the property as determined by the department or with the classification of the land or improvements, the owner may request an assessment review by submitting an objection in writing to the department, on forms provided by the department for that purpose, within 30 days after receiving the notice of classification and appraisal from the department. The review must be conducted informally and is not subject to the contested case procedures of the Montana Administrative Procedure Act. As a part of the review, the department may consider the actual selling price of the property, independent appraisals of the property, and other relevant information presented by the taxpayer in support of the taxpayer's opinion as to the market value of the property. The department shall give reasonable notice to the taxpayer of the time and place of the review. After the review, the department shall determine the correct appraisal and classification of the land or improvements and notify the taxpayer of its determination. In the notification, the department shall state its reasons for revising the classification or appraisal. When the proper appraisal and classification have been determined, the land must be classified and the improvements appraised in the manner ordered by the department.

(4) Whether a review as provided in subsection (3) is held or not, the department may not adjust an appraisal or classification upon the taxpayer's objection unless:

(a) the taxpayer has submitted an objection in writing; and

(b) the department has stated its reason in writing for making the adjustment.

(5) A taxpayer's written objection to a classification or appraisal and the department's notification to the taxpayer of its determination and the reason for that determination are public records. The department shall make the records available for inspection during regular office hours.

(6) If any property owner feels aggrieved by the classification or appraisal made by the department after the review provided for in subsection (3), the property owner has the right to first appeal to the county tax appeal board and then to the state tax appeal board, whose findings are final subject to the right of review in the courts. The appeal to the county tax appeal board must be filed within 30 days after notice of the department's determination is mailed to the taxpayer. A county tax appeal board or the state tax appeal board may consider the actual selling price of the property, independent appraisals of the property, and other relevant information presented by the taxpayer as evidence of the market value of the property. If the county tax appeal board or the state tax appeal board determines that an adjustment should be made, the department shall adjust the base value of the property in accordance with the board's order."

Section 4. Section 15-7-111, MCA, is amended to read:

"**15-7-111. Periodic revaluation of certain taxable property.** (1)<u>(a)</u> The department of revenue shall administer and supervise a program for the revaluation of all taxable property within classes three~~, four,~~ and ten. All other property<u>, except property in class four,</u> must be revalued annually.

<u>(b) Property in class four must be valued as provided in [section 1].</u>

<u>(c)</u> The revaluation of class three~~, four,~~ and ten property is complete on December 31, 1996. The amount of the change in valuation from the 1996 base year for each property in classes three~~, four,~~ and ten must be phased in each year at the rate of 2% of the total change in valuation.

(2) The department shall value and phase in the value of newly constructed, remodeled, or reclassified property <u>in class three or ten</u> in a manner consistent with the valuation within the same class and the values established pursuant to subsection (1). The department shall adopt rules for determining the assessed valuation and phased-in value of new, remodeled, or reclassified property within the same class.

(3) Beginning January 1, 2007, the department of revenue shall administer and

supervise a program for the revaluation of all taxable property within classes three~~, four,~~ and ten. A comprehensive written reappraisal plan must be promulgated by the department. The reappraisal plan adopted must provide that all class three~~, four,~~ and ten property in each county is revalued by January 1, 2010, and each succeeding 3 years. The department shall furnish a copy of the plan and all amendments to the plan to the board of county commissioners of each county."

Section 5. Section 15-8-111, MCA, is amended to read:

"15-8-111. Assessment -- market value standard -- exceptions. (1) All taxable property must be assessed at 100% of its market value except as otherwise provided.

(2) (a) Market value is the value at which property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts.

(b) If the department uses construction cost as one approximation of market value, the department shall fully consider reduction in value caused by depreciation, whether through physical depreciation, functional obsolescence, or economic obsolescence.

(c) Except as provided in subsection (3), the market value of special mobile equipment and agricultural tools, implements, and machinery is the average wholesale value shown in national appraisal guides and manuals or the value before reconditioning and profit margin. The department shall prepare valuation schedules showing the average wholesale value when a national appraisal guide does not exist.

(3) The department may not adopt a lower or different standard of value from market value in making the official assessment and appraisal of the value of property, except:

(a) the wholesale value for agricultural implements and machinery is the average wholesale value category as shown in Guides 2000, Northwest Region Official Guide, published by the North American equipment dealers association, St. Louis, Missouri. If the guide or the average wholesale value category is unavailable, the department shall use a comparable publication or wholesale value category.

(b) for agricultural implements and machinery not listed in an official guide, the

department shall prepare a supplemental manual in which the values reflect the same depreciation as those found in the official guide; ~~and~~

(c) property in 15-6-134, under class four, is assessed as provided in [section 1]; and

(d) as otherwise authorized in Titles 15 and 61.

(4) For purposes of taxation, assessed value is the same as appraised value.

(5) The taxable value for all property is the percentage of market or assessed value established for each class of property.

(6) The assessed value of properties in 15-6-131 through 15-6-133 is as follows:

(a) Properties in 15-6-131, under class one, are assessed at 100% of the annual net proceeds after deducting the expenses specified and allowed by 15-23-503 or, if applicable, as provided in 15-23-515, 15-23-516, 15-23-517, or 15-23-518.

(b) Properties in 15-6-132, under class two, are assessed at 100% of the annual gross proceeds.

(c) Properties in 15-6-133, under class three, are assessed at 100% of the productive capacity of the lands when valued for agricultural purposes. All lands that meet the qualifications of 15-7-202 are valued as agricultural lands for tax purposes.

(d) Properties in 15-6-143, under class ten, are assessed at 100% of the forest productivity value of the land when valued as forest land.

(7) Land and the improvements on the land are separately assessed when any of the following conditions occur:

(a) ownership of the improvements is different from ownership of the land;

(b) the taxpayer makes a written request; or

(c) the land is outside an incorporated city or town."

Section 6. Section 15-10-412, MCA, is amended to read:

"**15-10-412. Property tax limit -- exception.** Section 15-10-402 is implemented as follows:

(1) The limitation on the amount of taxes levied means that, except as otherwise provided in this section, the total amount of taxes levied by each taxing unit is capped at the dollar amount levied in each taxing unit for the 1996 tax year, except in a taxing unit that levied a tax in tax years 1993 through 1995 but did not levy a tax in

1996, in which case the taxes levied are capped at the dollar amount due in that taxing unit for the 1995 tax year.

(2) The limitation on the amount of taxes levied does not prohibit an increase in the total taxes levied by a taxing unit as a result of:

(a) annexation of real property and improvements into a taxing unit;

(b) construction, expansion, or remodeling of improvements;

(c) transfer of property into a taxing unit;

(d) subdivision of real property;

(e) reclassification of property;

(f) increases in the amount of production or the value of production for property described in 15-6-131 or 15-6-132;

(g) transfer of property from tax-exempt to taxable status; or

(h) revaluations caused by:

(i) expansion, addition, replacement, or remodeling of improvements; or

(ii) cyclical reappraisal pursuant to 15-7-111.

(3) The limitation on the amount of taxes levied does not prohibit an increase in the total taxes levied by a taxing unit in order to compensate the taxing unit for any loss in the total amount of nonlevy revenue received in 1996 from taxes imposed under Title 15, chapter 23, part 7, and Title 15, chapter 36, part 3.

(4) The limitation on the amount of taxes levied does not prohibit an increase in the taxable valuation or in the actual tax liability on individual property as a result of:

(a) revaluations caused by:

(i) expansion, addition, replacement, or remodeling of improvements; or

(ii) cyclical reappraisal pursuant to 15-7-111;

(b) reclassification of property;

(c) transfer of property into a taxing unit;

(d) increases in the amount of production or the value of production for property described in 15-6-131 or 15-6-132;

(e) annexation of an individual property into a new or different taxing unit; or

(f) conversion of the individual property from tax exempt to taxable status.

(5) The limitation on the amount of taxes, as clarified in this section, is intended to leave the property appraisal and valuation methodologies of the department

of revenue intact. Determinations of county classifications, salaries of local government officers, and all other matters in which total taxable valuation is an integral component are not affected by 15-10-401 and 15-10-402.

~~(5)~~(6) (a) Except as provided in subsection ~~(5)(d)~~ (6)(d), if a taxing unit's taxable valuation decreases from the 1996 tax year, it may levy additional mills to compensate for the decreased taxable valuation, but the mills levied may not exceed a number calculated to equal the revenue from property taxes for the 1996 tax year in that taxing unit.

(b) If a levy authorized under Title 20 raised less revenue in 1996 than was raised in either 1994 or 1995, the taxing unit may, after approval by the voters in the taxing unit, raise each year thereafter an additional number of mills but may not levy more revenue than the 3-year average of revenue raised for that purpose during 1994, 1995, and 1996.

(c) If a levy authorized in 50-2-111 that was made in 1996 was for less than the number of mills levied in either 1994 or 1995, the taxing unit may, after approval by the voters in the taxing unit, levy each year thereafter an additional number of mills but may not levy more than the 3-year average number of mills levied for that purpose during 1994, 1995, and 1996.

(d) If a taxing unit's taxable valuation decreases by more than 5% in any year, it may levy additional mills by following either procedure provided for in subsection ~~(7)(a)~~ (8)(a).

~~(6)~~(7) The limitation on the amount of taxes levied does not apply to the following levy or special assessment categories, whether or not they are based on commitments made before or after approval of 15-10-401 and 15-10-402:

(a) rural improvement districts;

(b) special improvement districts;

(c) levies pledged for the repayment of bonded indebtedness, including tax increment bonds;

(d) city street maintenance districts;

(e) tax increment financing districts;

(f) satisfaction of judgments against a taxing unit;

(g) street lighting assessments;

(h) revolving funds to support any categories specified in this subsection ~~(6)~~(7);

(i) levies for economic development authorized pursuant to 90-5-112(4);

(j) levies authorized under 7-6-502 for juvenile detention programs;

(k) levies authorized under 76-15-531 and 76-15-532 for conservation district special administrative assessments;

(l) elementary and high school districts; and

(m) voted poor fund levies authorized under 53-2-322.

~~(7)~~(8) (a) The limitation on the amount of taxes levied does not apply in a taxing unit if the voters in the taxing unit approve an increase in tax liability:

(i) following a resolution of the governing body of the taxing unit containing:

(A) a finding that there are insufficient funds to adequately operate the taxing unit as a result of 15-10-401 and 15-10-402;

(B) an explanation of the nature of the financial emergency;

(C) an estimate of the amount of funding shortfall expected by the taxing unit;

(D) a statement that applicable fund balances are or by the end of the fiscal year will be depleted;

(E) a finding that there are no alternative sources of revenue;

(F) a summary of the alternatives that the governing body of the taxing unit has considered; and

(G) a statement of the need for the increased revenue and how it will be used; or

(ii) by a vote pursuant to this subsection ~~(7)(a)(ii)~~ (8)(a)(ii). The approval or rejection of a levy that does not follow the procedure in subsection ~~(7)(a)(i)~~ (8)(a)(i) is decided in the following manner:

(A) determine the total number of qualified electors of the taxing unit from the list of electors supplied by the county registrar for the election;

(B) determine the total number of qualified electors who voted at the taxing unit election from the tally sheets for the election; and

(C) calculate the percentage of qualified electors voting at the election by dividing the number determined in subsection ~~(7)(a)(ii)(A)~~ (8)(a)(ii)(A) by the number determined in subsection ~~(7)(a)(ii)(B)~~ (8)(a)(ii)(B).

(b) When the calculated percentage in subsection ~~(7)(a)(ii)(C)~~ (8)(a)(ii)(C) is 40% or more, the levy is considered to have been approved and adopted if a majority of

the votes are cast in favor of the proposition, otherwise it is considered to have been rejected.

(c) The election provisions of this section do not apply to school levy elections.

~~(8)~~(9) (a) The limitation on the amount of taxes levied does not apply to levies required to address the funding of relief of suffering of inhabitants caused by famine, conflagration, or other public calamity.

(b) The limitation set forth in this chapter on the amount of taxes levied does not apply to levies to support:

(i) a city-county board of health as provided in Title 50, chapter 2, if the governing bodies of the taxing units served by the board of health determine, after a public hearing, that public health programs require funds to ensure the public health. A levy for the support of a local board of health may not exceed the 5-mill limit established in 50-2-111.

(ii) county, city, or town ambulance services authorized by a vote of the electorate under 7-34-102(2);

(iii) a hospital district, as provided in Title 7, chapter 34, part 21, if authorized by the electorate of the district. A levy for the support of the hospital district may not exceed the 3-mill levy limit authorized in 7-34-2133 unless a voted special levy is authorized under 7-34-2134.

(iv) a rail authority, as provided in Title 7, chapter 14, part 16, authorized by a board of county commissioners. A levy for the support of a rail authority may not exceed the 6-mill limit established in 7-14-1632.

~~(9)~~(10) The limitation on the amount of taxes levied by a taxing jurisdiction subject to a statutory maximum mill levy does not prevent a taxing jurisdiction from increasing its number of mills beyond the statutory maximum mill levy to produce revenue equal to its 1996 revenue.

~~(10)~~(11) The limitation on the amount of taxes levied does not apply to a levy increase to repay taxes paid under protest in accordance with 15-1-402.

~~(11)~~(12) A taxing jurisdiction that included special improvement district revolving fund levies in the limitation on the amount of taxes levied prior to April 22, 1993, may continue to include the amount of the levies within the dollar amount due in each taxing unit for the 1986 tax year even if the necessity for the revolving fund has

diminished and the levy authority has been transferred."

Section 7. Section 15-36-323, MCA, is amended to read:

"**15-36-323. Calculation of unit value.** For the purposes of distribution of oil and natural gas production taxes to county and school taxing units for production from pre-1985 wells, the department shall determine the unit value of oil and natural gas for each taxing unit as follows:

(1) Subject to the conditions of subsection (3), the unit value for oil for each taxing unit is the quotient obtained by dividing the net proceeds taxes calculated on oil produced and sold in that taxing unit in calendar year 1988 by the number of barrels of oil produced in that taxing unit during 1988, excluding post-1985 wells.

(2) Subject to the conditions of subsection (3), the unit value for natural gas is the quotient obtained by dividing the net proceeds taxes calculated on natural gas produced and sold in that taxing unit in calendar year 1988 by the number of cubic feet of natural gas produced in that taxing unit during 1988, excluding post-1985 wells.

(3) The amount of net proceeds taxes calculated under subsections (1) and (2) may not include the amount of taxes that are attributable to a voted levy, as described in ~~15-10-412(7)~~ 15-10-412(8), for which additional mills were levied in fiscal year 1990."

NEW SECTION. **Section 8. Effective date -- applicability -- contingent voidness.** If [LC-AE-1A.001] is approved by the electorate, [this act] is effective on passage and approval and applies retroactively, within the meaning of 1-2-109, to tax years beginning after December 31, 2000. If [LC-AE-1A.001] is not approved by the electorate, [this act] is void.

NEW SECTION. **Section 9. Transition.** (1) Except as provided in subsection (2), on [the effective date of this act], the department of revenue shall assess all property in class four, under 15-6-134, as provided in [section 1].

(2) To effect the transition, the department of revenue shall assess all class four property subject to the acquisition method of valuation at a base year value for the property for tax year 2001. The base year value is defined as:

(a) if the property existed as class four property prior to January 1, 1993, the

market value of the property as of January 1, 1993; or

(b)(i) if the property existed as class four property prior to January 1, 1993 but changed ownership, as provided by law under Art. VIII, section 3(2)(a)(i) of the constitution, after December 31, 1992, the sales price of the property, provided the sale was an arms-length transaction, plus the value due to any change in use, classification, or reclassification, plus the value of any addition, remodeling, improvement or destruction to the property after December 31, 1992, as of the date of the change; or

(ii) if the character of the property changed after January 1, 1992 due to a change in use, classification or reclassification, or to addition, remodeling, improvement, or destruction other than by natural disaster, the change in value due to the change in use, classification, or reclassification, or addition, remodeling, improvement or destruction to the property after December 31, 1992 as of the date of the change.

(3) Whenever a sale is determined by the department of revenue to have been other than an arms-length transaction, the department shall appraise the property at market value as of the date of the transaction and the value established by the department is the base year value for the purposes of taxation.

(4) For each year after the base year value of the property has been established under subsection (2) or (3), the department of revenue shall adjust the value as provided by law pursuant to Art. VIII, section 3 of the constitution.

(5) A change in value pursuant to this section applies for tax purposes beginning January 1 following the change in value.

-END-

{Dave Bohyer - L43
Research Director
Montana Legislative Services
(406) 444-3064}

**** Bill No. ***

Introduced By *************

By Request of the **********

A Bill for an Act entitled: "An Act mitigating the impacts of property reappraised for tax purposes by providing a partial exemption of market value for homeowners, by reducing the tax rates applicable to property in classes 3, 4, and 10, and by reducing the state equalization aid levy for elementary and secondary schools; expanding taxpayer notification regarding changes in appraisal; instating for the tax year beginning January 1, 1999 the 1996 appraised value of property in classes 3, 4 and 10; requiring the department of revenue to reappraise all property in classes 3, 4 and 10 by January 1, 2002; revising the tax limits originally imposed by Initiative No. 105 as amended by Chapter 463, L. 1997, and by other legislative and administrative actions; amending sections 15-6-134, 15-6-201, 15-7-102, 15-7-111, 15-10-412, 15-36-323, 20-9-360, and 77-1-208, MCA; and providing an effective date and providing a retroactive applicability date."

Be it enacted by the Legislature of the State of Montana:

<u>NEW SECTION.</u> **Section 1. Exclusion of market value for owner-occupied residences.** Twenty-five percent of the first $100,000 or less of market value of any single-family residence actually occupied by the owner or owners as a primary residence for at least 8 months a year is exempt from taxation. Absence because of ill health does not disqualify a homeowner on the grounds of occupancy. Occupancy eligibility must be determined on a proportional basis if necessary in the year in which the property is sold or a taxpayer dies.

Section 2. Section 15-6-134, MCA, is amended to read:

"**15-6-134. Class four property -- description -- taxable percentage.** (1) Class four property includes:

(a) all land, except that specifically included in another class;

(b) all improvements, including trailers, manufactured homes, or mobile homes used as a residence, except those specifically included in another class;

(c) the first $100,000 or less of the market value<u>, after the application of the exemption under 15-6-201(1)(z),</u> of any improvement on real property, including trailers, manufactured homes, or mobile homes, and appurtenant land not exceeding 5 acres owned or under contract for deed and actually occupied for at least 7 months a year as the primary residential dwelling of any person whose total income from all sources, including net business income and otherwise tax-exempt income of all types but not including social security income paid directly to a nursing home, is not more than $15,000 for a single person or $20,000 for a married couple or a head of household, as adjusted according to subsection (2)(b)(ii). For the purposes of this subsection (1)(c), net business income is gross income less ordinary operating expenses but before deducting depreciation or depletion allowance, or both.

(d) all golf courses, including land and improvements actually and necessarily used for that purpose, that consist of at least nine holes and not less than 3,000 lineal yards; and

(e) all improvements on land that is eligible for valuation, assessment, and taxation as agricultural land under 15-7-202, including 1 acre of real property beneath improvements on land described in 15-6-133(1)(c). The 1 acre must be valued at market value.

(2) Class four property is taxed as follows:

(a) ~~(i)~~ Except as provided in 15-24-1402 or 15-24-1501 ~~and subsection (2)(a)(ii) of this section~~, property described in subsections (1)(a), (1)(b), and (1)(e) of this section is taxed at ~~3.86%~~ <u>3.25%</u> of its market value.

~~(ii) The taxable percentage rate in subsection (2)(a)(i) must be adjusted downward by subtracting 0.022 percentage points each year until the tax rate is equal to or less than 2.78%.~~

(b) (i) Property qualifying under the property tax assistance program in subsection (1)(c) is taxed at the rate provided in subsection (2)(a)~~(ii)~~ of its market value multiplied by a percentage figure based on income and determined from the following table:

Income Single Person	Income Married Couple Head of Household	Percentage Multiplier
$0 - $ 6,000	$0 -$ 8,000	20%
6,001 - 9,200	8,001 - 14,000	50%
9,201 - 15,000	14,001 - 20,000	70%

(ii) The income levels contained in the table in subsection (2)(b)(i) must be adjusted for inflation annually by the department of revenue. The adjustment to the income levels is determined by:

(A) multiplying the appropriate dollar amount from the table in subsection (2)(b)(i) by the ratio of the PCE for the second quarter of the year prior to the year of application to the PCE for the second quarter of 1995; and

(B) rounding the product thus obtained to the nearest whole dollar amount.

(iii) "PCE" means the implicit price deflator for personal consumption expenditures as published quarterly in the Survey of Current Business by the bureau of economic analysis of the U.S. department of commerce.

(c) Property described in subsection (1)(d) is taxed at one-half the taxable percentage rate established in subsection (2)(a)~~(i)~~.

(3) Within the meaning of comparable property, as defined in 15-1-101, property assessed as commercial property is comparable only to other property assessed as commercial property and property assessed as other than commercial

property is comparable only to other property assessed as other than commercial property."

Section 3. Section 15-6-201, MCA, is amended to read:

"**15-6-201. Exempt categories.** (1) The following categories of property are exempt from taxation:

(a) except as provided in 15-24-1203, the property of:

(i) the United States, except:

(A) if congress passes legislation that allows the state to tax property owned by the federal government or an agency created by congress; or

(B) as provided in 15-24-1103;

(ii) the state, counties, cities, towns, and school districts;

(iii) irrigation districts organized under the laws of Montana and not operating for profit;

(iv) municipal corporations;

(v) public libraries; and

(vi) rural fire districts and other entities providing fire protection under Title 7, chapter 33;

(b) buildings, with land that they occupy and furnishings in the buildings, that are owned by a church and used for actual religious worship or for residences of the clergy, together with adjacent land reasonably necessary for convenient use of the buildings;

(c) property used exclusively for agricultural and horticultural societies, for educational purposes, and for nonprofit health care facilities, as defined in 50-5-101, licensed by the department of public health and human services and organized under Title 35, chapter 2 or 3. A health care facility that is not licensed by the department of public health and human services and organized under Title 35, chapter 2 or 3, is not exempt.

(d) property that is:

(i) owned and held by an association or corporation organized under Title 35, chapter 2, 3, 20, or 21;

(ii) devoted exclusively to use in connection with a cemetery or cemeteries for which a permanent care and improvement fund has been established as provided for in Title 35, chapter 20, part 3; and

(iii) not maintained and operated for private or corporate profit;

(e) property that is owned or property that is leased from a federal, state, or local governmental entity by institutions of purely public charity if the property is directly used for purely public charitable purposes;

(f) evidence of debt secured by mortgages of record upon real or personal property in the state of Montana;

(g) public museums, art galleries, zoos, and observatories that are not used or held for private or corporate profit;

(h) all household goods and furniture, including but not limited to clocks, musical instruments, sewing machines, and wearing apparel of members of the family, used by the owner for personal and domestic purposes or for furnishing or equipping the family residence;

(i) truck canopy covers or toppers and campers;

(j) a bicycle, as defined in 61-1-123, used by the owner for personal transportation purposes;

(k) motor homes;

(l) all watercraft;

(m) motor vehicles, land, fixtures, buildings, and improvements owned by a cooperative association or nonprofit corporation organized to furnish potable water to its members or customers for uses other than the irrigation of agricultural land;

(n) the right of entry that is a property right reserved in land or received by mesne conveyance (exclusive of leasehold interests), devise, or succession to enter land with a surface title that is held by another to explore, prospect, or dig

for oil, gas, coal, or minerals;

(o) (i) property that is owned and used by a corporation or association organized and operated exclusively for the care of persons with developmental disabilities, persons with mental illness, or persons with physical or mental impairments that constitute or result in substantial impediments to employment and that is not operated for gain or profit; and

(ii) property that is owned and used by an organization owning and operating facilities that are for the care of the retired, aged, or chronically ill and that are not operated for gain or profit;

(p) all farm buildings with a market value of less than $500 and all agricultural implements and machinery with a market value of less than $100;

(q) property owned by a nonprofit corporation that is organized to provide facilities primarily for training and practice for or competition in international sports and athletic events and that is not held or used for private or corporate gain or profit. For purposes of this subsection (1)(q), "nonprofit corporation" means an organization that is exempt from taxation under section 501(c) of the Internal Revenue Code and incorporated and admitted under the Montana Nonprofit Corporation Act.

(r) the first $15,000 or less of market value of tools owned by the taxpayer that are customarily hand-held and that are used to:

(i) construct, repair, and maintain improvements to real property; or

(ii) repair and maintain machinery, equipment, appliances, or other personal property;

(s) harness, saddlery, and other tack equipment;

(t) a title plant owned by a title insurer or a title insurance producer, as those terms are defined in 33-25-105;

(u) timber as defined in 15-44-102;

(v) all trailers as defined in 61-1-111, semitrailers as defined in 61-1-112, pole trailers as defined in 61-1-114, and travel trailers as defined in 61-1-131;

(w) all vehicles registered under 61-3-456;

(x) (i) buses, trucks having a manufacturer's rated capacity of more than 1 ton, and truck tractors, including buses, trucks, and truck tractors apportioned under Title 61, chapter 3, part 7; and

(ii) personal property that is attached to a bus, truck, or truck tractor that is exempt under subsection (1)(x)(i); ~~and~~

(y) motorcycles and quadricycles; and

(z) 25% of the first $100,000 or less of market value of any single-family residence as provided in [section 1].

(2) (a) For the purposes of subsection (1)(e), the term "institutions of purely public charity" includes any organization that meets the following requirements:

(i) The organization qualifies as a tax-exempt organization under the provisions of section 501(c)(3), Internal Revenue Code, as amended.

(ii) The organization accomplishes its activities through absolute gratuity or grants. However, the organization may solicit or raise funds by the sale of merchandise, memberships, or tickets to public performances or entertainment or by other similar types of fundraising activities.

(b) For the purposes of subsection (1)(g), the term "public museums, art galleries, zoos, and observatories" means governmental entities or nonprofit organizations whose principal purpose is to hold property for public display or for use as a museum, art gallery, zoo, or observatory. The exempt property includes all real and personal property reasonably necessary for use in connection with the public display or observatory use. Unless the property is leased for a profit to a governmental entity or nonprofit organization by an individual or for-profit organization, real and personal property owned by other persons is exempt if it is:

(i) actually used by the governmental entity or nonprofit organization as a part of its public display;

(ii) held for future display; or

(iii) used to house or store a public display.

(3) The following portions of the appraised value of a capital investment in a recognized nonfossil form of energy generation or low emission wood or biomass combustion devices, as defined in 15-32-102, are exempt from taxation for a period of 10 years following installation of the property:

(a) $20,000 in the case of a single-family residential dwelling;

(b) $100,000 in the case of a multifamily residential dwelling or a nonresidential structure."

Section 4. Section 15-7-102, MCA, is amended to read:

"15-7-102. Notice of classification and appraisal to owners -- appeals. (1) (a) The department shall mail to each owner or purchaser under contract for deed a notice of the classification of the land owned or being purchased and the appraisal of the improvements on the land only if one or more of the following changes pertaining to the land or improvements have been made since the last notice:

(i) change in ownership;

(ii) change in classification;

(iii) ~~except as provided in subsection (1)(b),~~ change in valuation; or

(iv) addition or subtraction of personal property affixed to the land.

~~(b) After the first year, the department is not required to mail the notice provided for in subsection (1)(a)(iii) if the change in valuation is the result of an incremental change in valuation caused by the phasing in of a reappraisal.~~

~~(c)~~<u>(b)</u> The notice must include the following for the taxpayer's informational purposes:

(i) the total amount of mills levied against the property in the prior year;

<u>(ii) the amount of the prior year's taxes resulting from levied mills;</u>

<u>(iii) an estimate of the current year's taxes based on the prior year's mills;</u> and

~~(ii)~~(iv) a statement that the notice is not a tax bill.

~~(d)~~(c) Any misinformation provided in the information required by subsection ~~(1)(c)~~ (1)(b) does not affect the validity of the notice and may not be used as a basis for a challenge of the legality of the notice.

(2) (a) Except as provided in subsection (2)(c), the department shall assign each assessment to the correct owner or purchaser under contract for deed and mail the notice of classification and appraisal on a standardized form, adopted by the department, containing sufficient information in a comprehensible manner designed to fully inform the taxpayer as to the classification and appraisal of the property and of changes over the prior tax year.

(b) The notice must advise the taxpayer that in order to be eligible for a refund of taxes from an appeal of the classification or appraisal, the taxpayer is required to pay the taxes under protest as provided in 15-1-402.

(c) The department is not required to mail the notice of classification and appraisal to a new owner or purchaser under contract for deed unless the department has received the transfer certificate from the clerk and recorder as provided in 15-7-304 and has processed the certificate before the notices required by subsection (2)(a) are mailed. The date of mailing is the date reported to the county tax appeal board pursuant to 15-15-101.

(3) If the owner of any land and improvements is dissatisfied with the appraisal as it reflects the market value of the property as determined by the department or with the classification of the land or improvements, the owner may request an assessment review by submitting an objection in writing to the department, on forms provided by the department for that purpose, within 30 days after receiving the notice of classification and appraisal from the department. The review must be conducted informally and is not subject to the contested case procedures of the Montana Administrative Procedure Act. As a part of the review, the department may consider the actual selling price of the property, independent appraisals of the property, and other relevant information presented by the

taxpayer in support of the taxpayer's opinion as to the market value of the property. The department shall give reasonable notice to the taxpayer of the time and place of the review. After the review, the department shall determine the correct appraisal and classification of the land or improvements and notify the taxpayer of its determination. In the notification, the department shall state its reasons for revising the classification or appraisal. When the proper appraisal and classification have been determined, the land must be classified and the improvements appraised in the manner ordered by the department.

(4) Whether a review as provided in subsection (3) is held or not, the department may not adjust an appraisal or classification upon the taxpayer's objection unless:

(a) the taxpayer has submitted an objection in writing; and

(b) the department has stated its reason in writing for making the adjustment.

(5) A taxpayer's written objection to a classification or appraisal and the department's notification to the taxpayer of its determination and the reason for that determination are public records. The department shall make the records available for inspection during regular office hours.

(6) If any property owner feels aggrieved by the classification or appraisal made by the department after the review provided for in subsection (3), the property owner has the right to first appeal to the county tax appeal board and then to the state tax appeal board, whose findings are final subject to the right of review in the courts. The appeal to the county tax appeal board must be filed within 30 days after notice of the department's determination is mailed to the taxpayer. A county tax appeal board or the state tax appeal board may consider the actual selling price of the property, independent appraisals of the property, and other relevant information presented by the taxpayer as evidence of the market value of the property. If the county tax appeal board or the state tax appeal board determines that an adjustment should be made, the department shall adjust the

base value of the property in accordance with the board's order."

Section 5. Section 15-7-111, MCA, is amended to read:

"**15-7-111. Periodic revaluation of certain taxable property.** (1) The department of revenue shall administer and supervise a program for the revaluation of all taxable property within classes three, four, and ten. All other property must be revalued annually. The revaluation of class three, four, and ten property is complete on December 31, 1996. ~~The amount of the change in valuation from the 1996 base year for each property in classes three, four, and ten must be phased in each year at the rate of 2% of the total change in valuation.~~

~~(2) The department shall value and phase in the value of newly constructed, remodeled, or reclassified property in a manner consistent with the valuation within the same class and the values established pursuant to subsection (1). The department shall adopt rules for determining the assessed valuation and phased-in value of new, remodeled, or reclassified property within the same class.~~

~~(3)~~(2) Beginning January 1, ~~2007~~ 1999, the department of revenue shall administer and supervise a program for the revaluation of all taxable property within classes three, four, and ten. A comprehensive written reappraisal plan must be promulgated by the department. The reappraisal plan adopted must provide that all class three, four, and ten property in each county is revalued by January 1, ~~2010~~ 2002, and each succeeding 3 years. The department shall furnish a copy of the plan and all amendments to the plan to the board of county commissioners of each county."

Section 6. Section 15-10-412, MCA, is amended to read:

"**15-10-412. Property tax limit -- exception.** Section 15-10-402 is implemented as follows:

(1) The limitation on the amount of taxes levied means that, except as otherwise provided in this section, the total amount of taxes levied by each taxing

unit is capped at the dollar amount levied in each taxing unit for the 1996 tax year, except in a taxing unit that levied a tax in tax years 1993 through 1995 but did not levy a tax in 1996, in which case the taxes levied are capped at the dollar amount due in that taxing unit for the 1995 tax year.

(2) The limitation on the amount of taxes levied does not prohibit an increase in the total taxes levied by a taxing unit as a result of:

(a) annexation of real property and improvements into a taxing unit;

(b) construction, expansion, or remodeling of improvements;

(c) transfer of property into a taxing unit;

(d) subdivision of real property;

(e) reclassification of property;

(f) increases in the amount of production or the value of production for property described in 15-6-131 or 15-6-132;

(g) transfer of property from tax-exempt to taxable status; or

(h) revaluations caused by:

(i) expansion, addition, replacement, or remodeling of improvements; or

(ii) cyclical reappraisal pursuant to 15-7-111.

(3) The limitation on the amount of taxes levied does not prohibit an increase in the total taxes levied by a taxing unit in order to compensate the taxing unit for any loss in the total amount of nonlevy revenue received in 1996 from taxes imposed under Title 15, chapter 23, part 7, and Title 15, chapter 36, part 3.

(4) The limitation on the amount of taxes levied does not prohibit an increase in the taxable valuation or in the actual tax liability on individual property as a result of:

(a) revaluations caused by:

(i) expansion, addition, replacement, or remodeling of improvements; or

(ii) cyclical reappraisal pursuant to 15-7-111;

(b) reclassification of property;

(c) transfer of property into a taxing unit;

(d) increases in the amount of production or the value of production for property described in 15-6-131 or 15-6-132;

(e) annexation of an individual property into a new or different taxing unit; or

(f) conversion of the individual property from tax exempt to taxable status.

(5) The limitation on the amount of taxes, as clarified in this section, is intended to leave the property appraisal and valuation methodologies of the department of revenue intact. Determinations of county classifications, salaries of local government officers, and all other matters in which total taxable valuation is an integral component are not affected by 15-10-401 and 15-10-402.

~~(5)~~(6) (a) Except as provided in subsection ~~(5)(d)~~ (6)(d), if a taxing unit's taxable valuation decreases from the 1996 tax year, it may levy additional mills to compensate for the decreased taxable valuation, but the mills levied may not exceed a number calculated to equal the revenue from property taxes for the 1996 tax year in that taxing unit.

(b) If a levy authorized under Title 20 raised less revenue in 1996 than was raised in either 1994 or 1995, the taxing unit may, after approval by the voters in the taxing unit, raise each year thereafter an additional number of mills but may not levy more revenue than the 3-year average of revenue raised for that purpose during 1994, 1995, and 1996.

(c) If a levy authorized in 50-2-111 that was made in 1996 was for less than the number of mills levied in either 1994 or 1995, the taxing unit may, after approval by the voters in the taxing unit, levy each year thereafter an additional number of mills but may not levy more than the 3-year average number of mills levied for that purpose during 1994, 1995, and 1996.

(d) If a taxing unit's taxable valuation decreases by more than 5% in any year, it may levy additional mills by following either procedure provided for in subsection ~~(7)(a)~~ (8)(a).

~~(6)~~(7) The limitation on the amount of taxes levied does not apply to the following levy or special assessment categories, whether or not they are based on commitments made before or after approval of 15-10-401 and 15-10-402:

(a) rural improvement districts;

(b) special improvement districts;

(c) levies pledged for the repayment of bonded indebtedness, including tax increment bonds;

(d) city street maintenance districts;

(e) tax increment financing districts;

(f) satisfaction of judgments against a taxing unit;

(g) street lighting assessments;

(h) revolving funds to support any categories specified in this subsection ~~(6)~~(7);

(i) levies for economic development authorized pursuant to 90-5-112(4);

(j) levies authorized under 7-6-502 for juvenile detention programs;

(k) levies authorized under 76-15-531 and 76-15-532 for conservation district special administrative assessments;

(l) elementary and high school districts; and

(m) voted poor fund levies authorized under 53-2-322.

~~(7)~~(8) (a) The limitation on the amount of taxes levied does not apply in a taxing unit if the voters in the taxing unit approve an increase in tax liability:

(i) following a resolution of the governing body of the taxing unit containing:

(A) a finding that there are insufficient funds to adequately operate the taxing unit as a result of 15-10-401 and 15-10-402;

(B) an explanation of the nature of the financial emergency;

(C) an estimate of the amount of funding shortfall expected by the taxing unit;

(D) a statement that applicable fund balances are or by the end of the

fiscal year will be depleted;

(E) a finding that there are no alternative sources of revenue;

(F) a summary of the alternatives that the governing body of the taxing unit has considered; and

(G) a statement of the need for the increased revenue and how it will be used; or

(ii) by a vote ~~pursuant to this subsection (7)(a)(ii). The approval or rejection of a levy that does not follow the procedure in subsection (7)(a)(i) is decided in the following manner:~~

~~(A) determine the total number of qualified electors of the taxing unit from the list of electors supplied by the county registrar for the election;~~

~~(B) determine the total number of qualified electors who voted at the taxing unit election from the tally sheets for the election; and~~

~~(C) calculate the percentage~~ of qualified electors voting at the election ~~by dividing the number determined in subsection (7)(a)(ii)(A) by the number determined in subsection (7)(a)(ii)(B)~~.

(b) ~~When the calculated percentage in subsection (7)(a)(ii)(C) is 40% or more, the~~ The levy is considered to have been approved and adopted if a majority of the votes are cast in favor of the proposition, otherwise it is considered to have been rejected.

~~(c) The election provisions of this section do not apply to school levy elections.~~

~~(8)~~(9) (a) The limitation on the amount of taxes levied does not apply to levies required to address the funding of relief of suffering of inhabitants caused by famine, conflagration, or other public calamity.

(b) The limitation set forth in this chapter on the amount of taxes levied does not apply to levies to support:

(i) a city-county board of health as provided in Title 50, chapter 2, if the governing bodies of the taxing units served by the board of health determine, after

a public hearing, that public health programs require funds to ensure the public health. A levy for the support of a local board of health may not exceed the 5-mill limit established in 50-2-111.

(ii) county, city, or town ambulance services authorized by a vote of the electorate under 7-34-102(2);

(iii) a hospital district, as provided in Title 7, chapter 34, part 21, if authorized by the electorate of the district. A levy for the support of the hospital district may not exceed the 3-mill levy limit authorized in 7-34-2133 unless a voted special levy is authorized under 7-34-2134.

(iv) a rail authority, as provided in Title 7, chapter 14, part 16, authorized by a board of county commissioners. A levy for the support of a rail authority may not exceed the 6-mill limit established in 7-14-1632.

~~(9)~~(10) The limitation on the amount of taxes levied by a taxing jurisdiction subject to a statutory maximum mill levy does not prevent a taxing jurisdiction from increasing its number of mills beyond the statutory maximum mill levy to produce revenue equal to its 1996 revenue.

~~(10)~~(11) The limitation on the amount of taxes levied does not apply to a levy increase to repay taxes paid under protest in accordance with 15-1-402.

~~(11)~~(12) A taxing jurisdiction that included special improvement district revolving fund levies in the limitation on the amount of taxes levied prior to April 22, 1993, may continue to include the amount of the levies within the dollar amount due in each taxing unit for the 1986 tax year even if the necessity for the revolving fund has diminished and the levy authority has been transferred."

Section 7. Section 15-36-323, MCA, is amended to read:

"**15-36-323. Calculation of unit value.** For the purposes of distribution of oil and natural gas production taxes to county and school taxing units for production from pre-1985 wells, the department shall determine the unit value of oil and natural gas for each taxing unit as follows:

(1) Subject to the conditions of subsection (3), the unit value for oil for each taxing unit is the quotient obtained by dividing the net proceeds taxes calculated on oil produced and sold in that taxing unit in calendar year 1988 by the number of barrels of oil produced in that taxing unit during 1988, excluding post-1985 wells.

(2) Subject to the conditions of subsection (3), the unit value for natural gas is the quotient obtained by dividing the net proceeds taxes calculated on natural gas produced and sold in that taxing unit in calendar year 1988 by the number of cubic feet of natural gas produced in that taxing unit during 1988, excluding post-1985 wells.

(3) The amount of net proceeds taxes calculated under subsections (1) and (2) may not include the amount of taxes that are attributable to a voted levy, as described in ~~15-10-412(7)~~ 15-10-412(8), for which additional mills were levied in fiscal year 1990."

Section 8. Section 20-9-360, MCA, is amended to read:

"**20-9-360. State equalization aid levy.** There is a levy of ~~40~~ 37 mills imposed by the county commissioners of each county on all taxable property within the state, except property for which a tax or fee is required under 23-2-517, 23-2-803, 61-3-504, 61-3-521, 61-3-527, 61-3-529, 61-3-537, and 67-3-204. Proceeds of the levy must be remitted to the state treasurer and must be deposited to the credit of the state general fund for state equalization aid to the public schools of Montana."

Section 9. Section 77-1-208, MCA, is amended to read:

"**77-1-208. Cabin site licenses and leases -- method of establishing value.** (1) The board shall set the annual fee based on full market value for each cabin site and for each licensee or lessee who at any time wishes to continue or assign the license or lease. The fee must attain full market value based on

appraisal of the cabin site value as determined by the department of revenue. The licensee or lessee has the option to pay the entire fee on March 1 or to divide the fee into two equal payments due March 1 and September 1. The value may be increased or decreased as a result of the statewide periodic revaluation of property pursuant to 15-7-111 ~~without any adjustments as a result of phasing in values~~. An appeal of a cabin site value determined by the department of revenue must be conducted pursuant to Title 15, chapter 2.

(2) The board shall set the fee of each initial cabin site license or lease or each current cabin site license or lease of a person who does not choose to retain the license or lease. The initial fee must be based upon a system of competitive bidding. The fee for a person who wishes to retain that license or lease must be determined under the method provided for in subsection (1).

(3) The board shall follow the procedures set forth in 77-6-302 through 77-6-306 for the disposal or valuation of any fixtures or improvements placed upon the property by the then-current licensee or lessee and shall require the subsequent licensee or lessee whose bid is accepted by the board to purchase those fixtures or improvements in the manner required by the board."

NEW SECTION. **Section 10. Effective date -- retroactive applicability.** [This act] is effective on passage and approval and applies retroactively, within the meaning of 1-2-109, to tax years beginning after December 31, 1998.

-END-

{Dave Bohyer - L43
Research Director
Montana Legislative Services
(406) 444-3064}

APPENDIX B
TAXATION GRAPHICS

The charts contained in this appendix formed the core of presentations made at the beginning of each of the Committee's public hearings. Charts 1 through 10 in the body of the preceding narrative were extracted from the charts presented in this appendix.

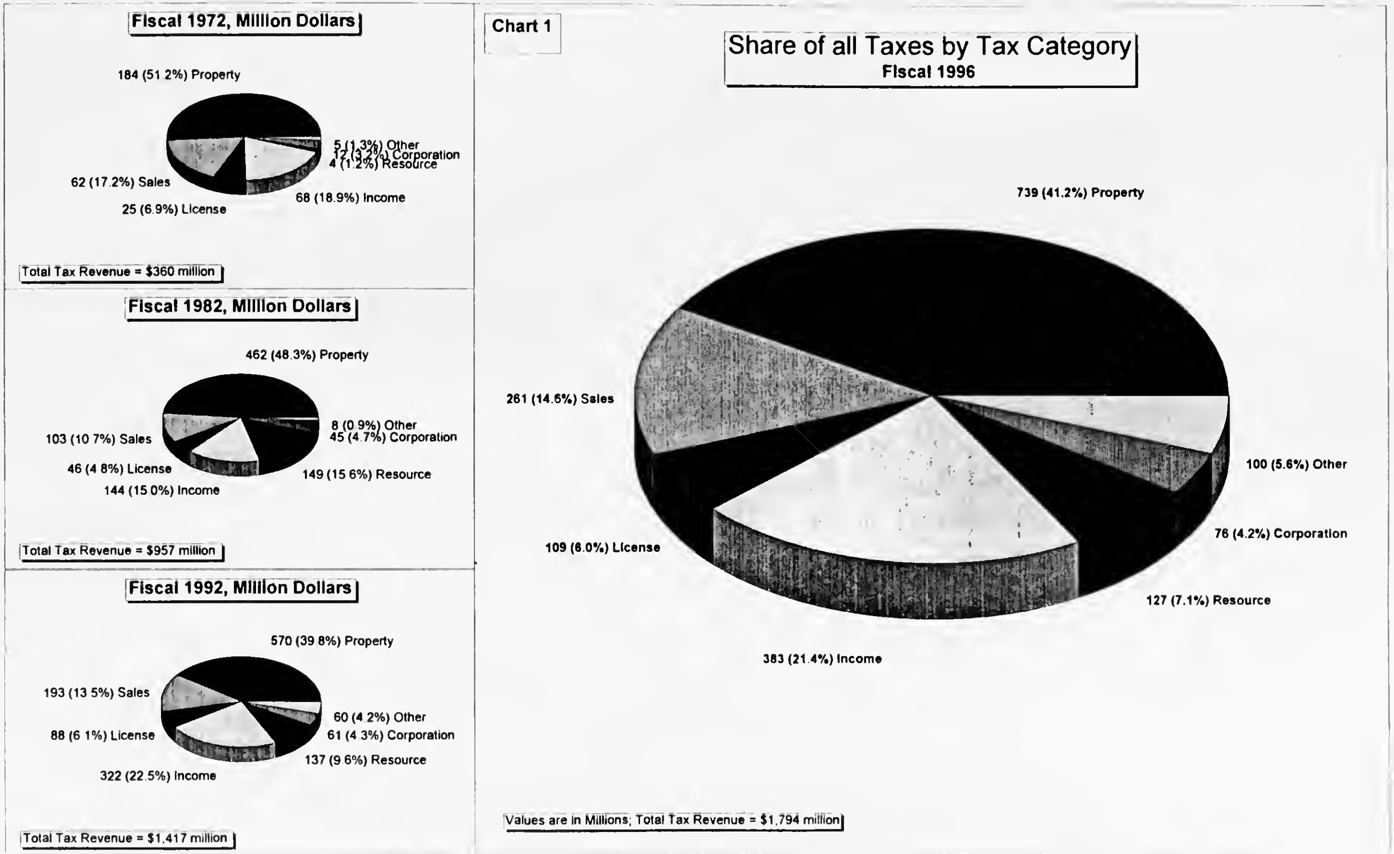
Most of the data for the charts in this appendix were compiled by and formatted by Jim Standaert, Senior Fiscal Analyst, Legislative Fiscal Division, Room 105, State Capitol, Helena, MT 59602. The Local Government Center, Montana State University-Bozeman, also provided some of the information in the charts.

TAXATION GRAPHICS

Prepared for the Interim Property Tax Committee

by
Legislative Services Division & Legislative Fiscal Division
September 1997

Chart 1

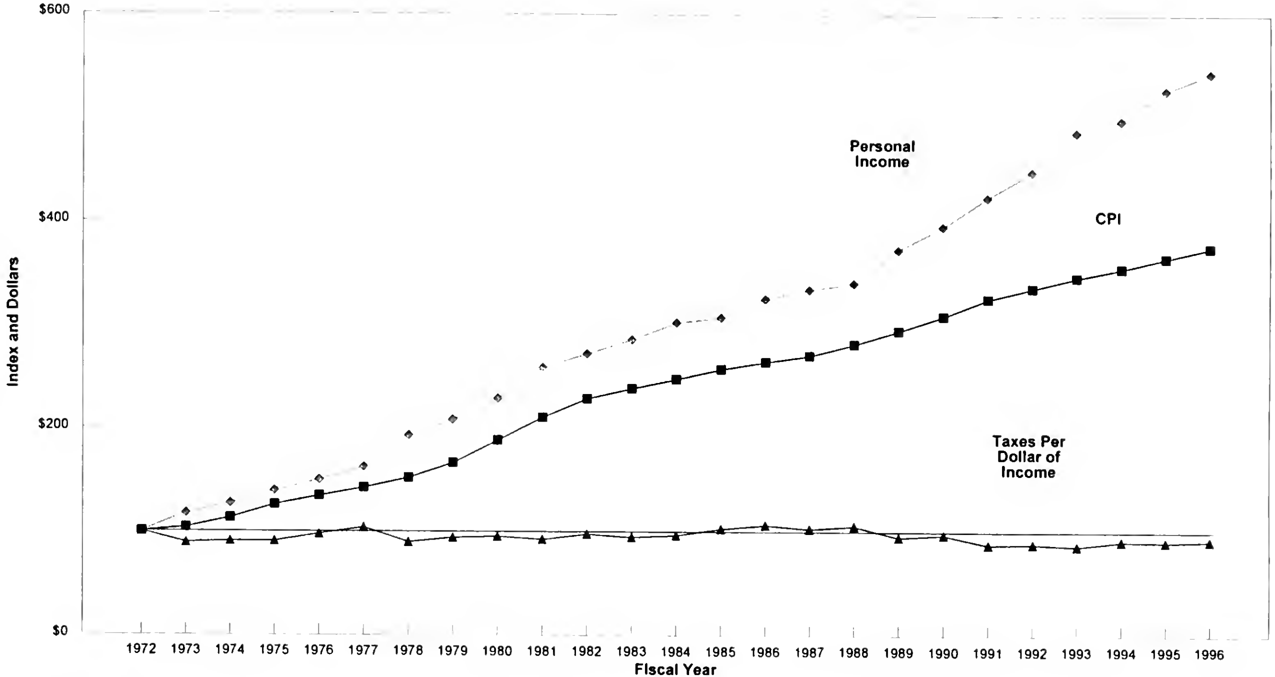


Fiscal 1972, Million Dollars
184 (51 2%) Property
5 (1.3%) Other
12 (3.2%) Corporation
4 (1.2%) Resource
62 (17.2%) Sales
68 (18.9%) Income
25 (6.9%) License
Total Tax Revenue = $360 million
Fiscal 1982, Million Dollars
462 (48.3%) Property
103 (10 7%) Sales
8 (0.9%) Other
45 (4.7%) Corporation
46 (4 8%) License
149 (15 6%) Resource
144 (15 0%) Income
Total Tax Revenue = $957 million
Fiscal 1992, Million Dollars
570 (39 8%) Property
193 (13 5%) Sales
60 (4 2%) Other
88 (6 1%) License
61 (4 3%) Corporation
137 (9 6%) Resource
322 (22.5%) Income
Total Tax Revenue = $1,417 million
Share of all Taxes by Tax Category
Fiscal 1996
739 (41.2%) Property
261 (14.6%) Sales
100 (5.6%) Other
76 (4.2%) Corporation
109 (6.0%) License
127 (7.1%) Resource
383 (21.4%) Income
Values are in Millions; Total Tax Revenue = $1,794 million

Chart 2

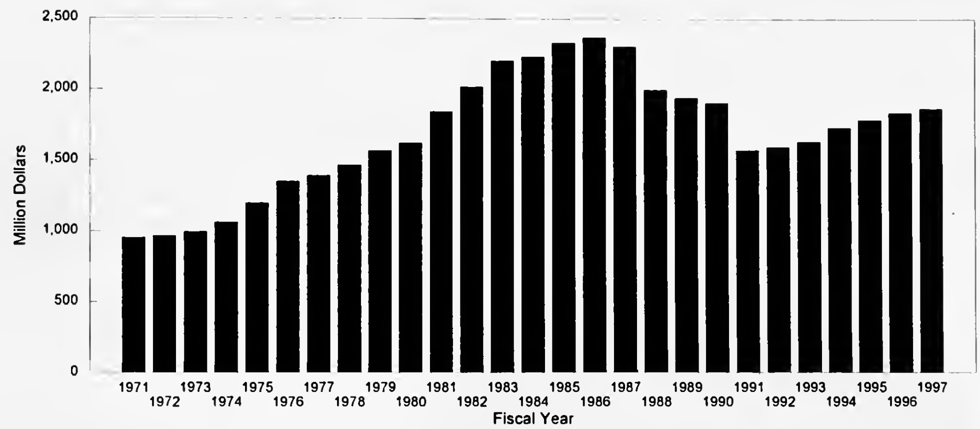
Indexes: CPI, Income and Total Taxes per Dollar of Income

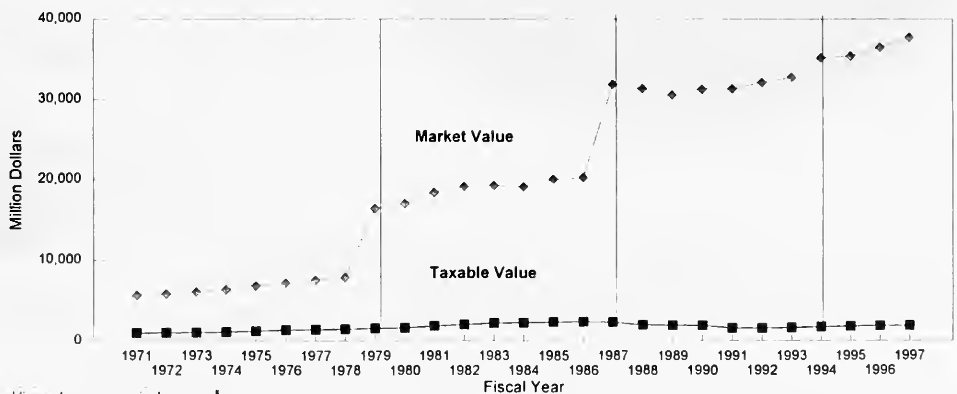
Fiscal 1992 - 1996



Fiscal 1972 = 100

Chart 3



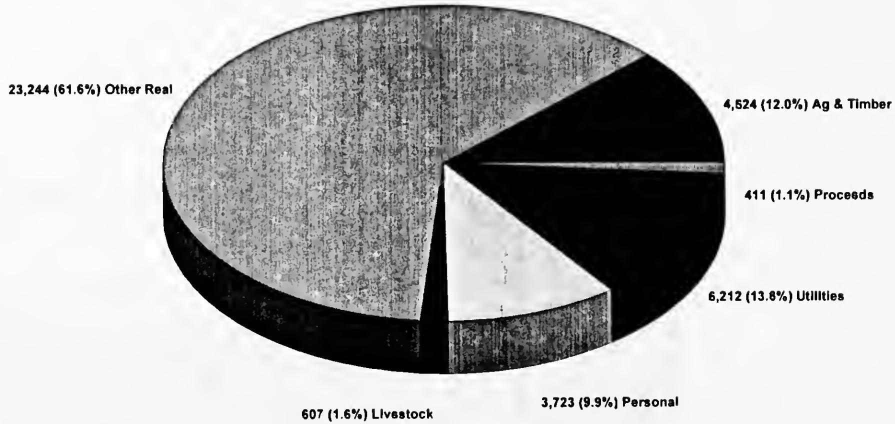


Vertical lines show reappraisal years

Chart 4

Share of Assessed/Market Value By Property Type

Fiscal 1997

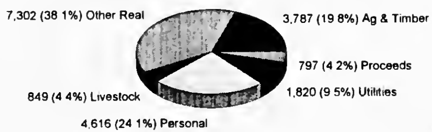


Values are in Millions, Total MV = $37,721 million

Fiscal 1972, Million Dollars

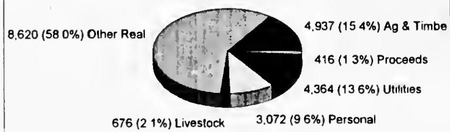
Total MV = $5,798 Million

Fiscal 1982, Million Dollars



Total MV = $19,172 Million

Fiscal 1992, Million Dollars



Total MV = $32,085 Million

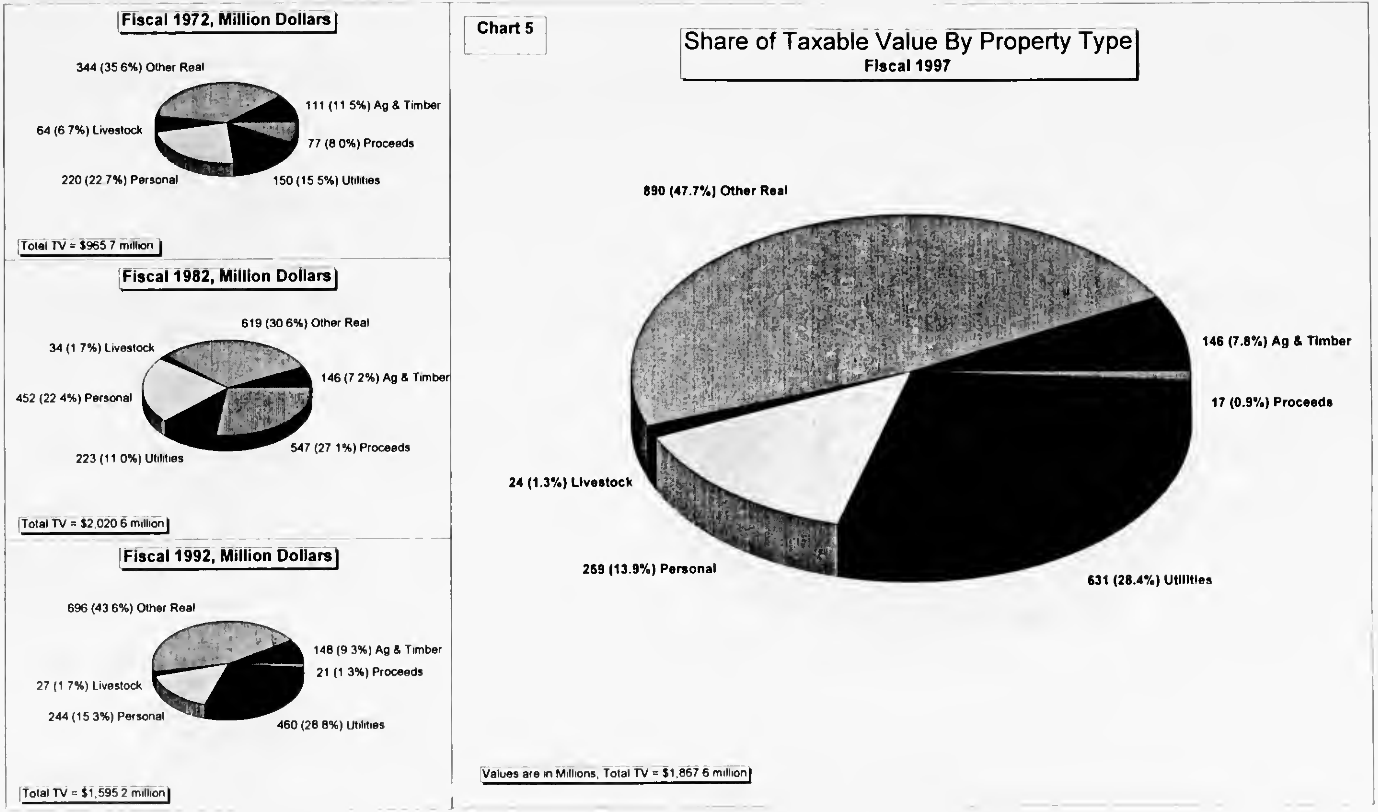
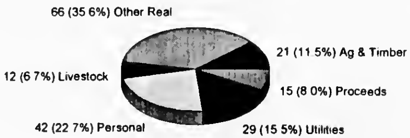


Chart 5
Share of Taxable Value By Property Type
Fiscal 1997
890 (47.7%) Other Real
146 (7.8%) Ag & Timber
17 (0.9%) Proceeds
631 (28.4%) Utilities
269 (13.9%) Personal
24 (1.3%) Livestock
Values are in Millions, Total TV = $1,867 6 million
Fiscal 1972, Million Dollars
344 (35 6%) Other Real
111 (11 5%) Ag & Timber
77 (8 0%) Proceeds
150 (15 5%) Utilities
220 (22 7%) Personal
64 (6 7%) Livestock
Total TV = $965 7 million
Fiscal 1982, Million Dollars
619 (30 6%) Other Real
146 (7 2%) Ag & Timber
547 (27 1%) Proceeds
223 (11 0%) Utilities
452 (22 4%) Personal
34 (1 7%) Livestock
Total TV = $2,020 6 million
Fiscal 1992, Million Dollars
696 (43 6%) Other Real
148 (9 3%) Ag & Timber
21 (1 3%) Proceeds
460 (28 8%) Utilities
244 (15 3%) Personal
27 (1 7%) Livestock
Total TV = $1,595 2 million

Chart 6

Fiscal 1972, Million Dollars

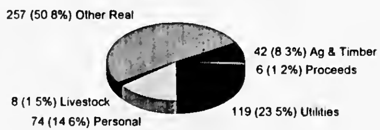


Total Property Tax Revenue = $184 Million

Fiscal 1982, Million Dollars

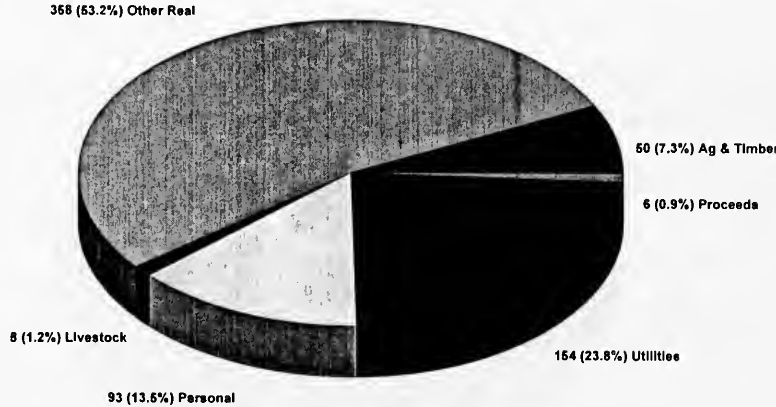
Total Property Tax Revenue = $462 Million

Fiscal 1992, Million Dollars



Motor Vehicle Nonlevy = $46 m, Nat Resource nonlevy = $54 m
Total Property Tax Revenue = $506 Million

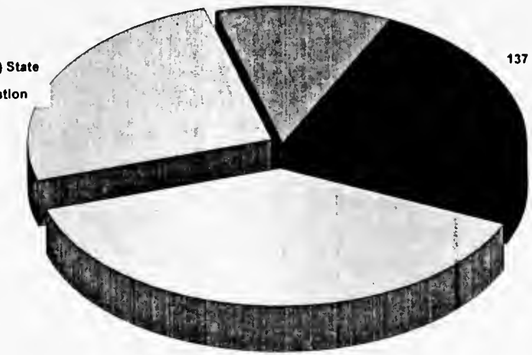
Share of All Property Taxes by Property Type
Fiscal 1997



Motor Vehicle Nonlevy = $74 m, Natural Resource Nonlevy = $57 million (no accelerated LGST)
Total Property Tax Revenue = $775 million

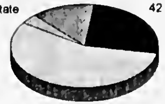
Chart 7

Share of Property Tax Revenue By Recipient Government
Fiscal 1997



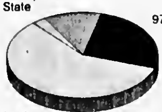
Values are in Millions, Total Property Tax Revenue = $775 million

Fiscal 1972, Million Dollars



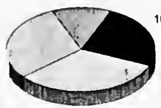
Total Property Tax Revenue = $196 Million

Fiscal 1982, Million Dollars



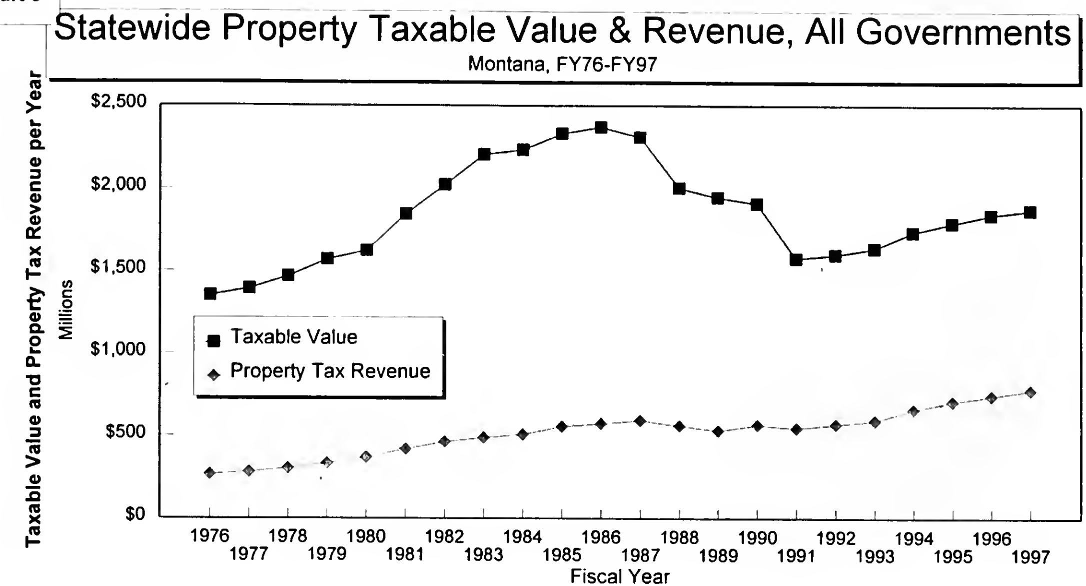
Total Property Tax Revenue = $462 Million

Fiscal 1992, Million Dollars



Total Property Tax Revenue = $567 Million

Chart 8



Source: MDOR Reports, Compiled by Local Government Center, MSU-Bozeman
Chart was redrawn by LFD.

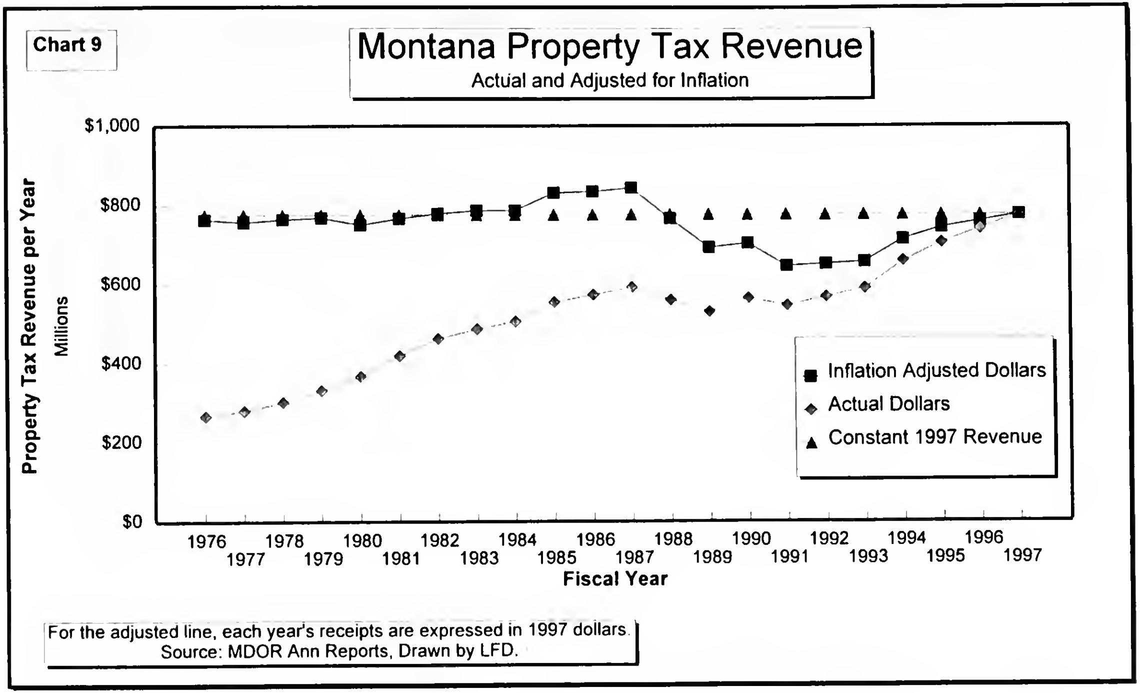
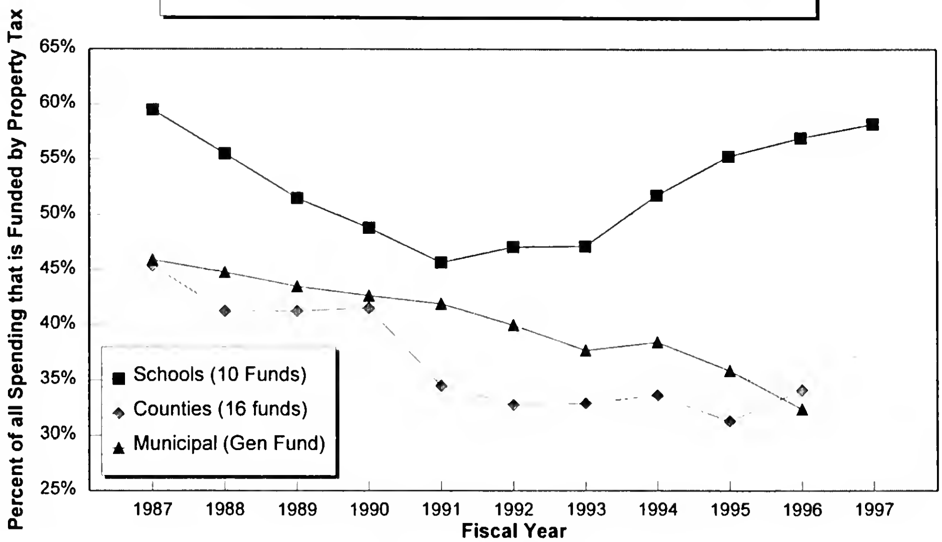


Chart 9
Montana Property Tax Revenue
Actual and Adjusted for Inflation
Property Tax Revenue per Year
Millions
$1,000
$800
$600
$400
$200
$0
1976
1977
1978
1979
1980
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996
1997
Fiscal Year
Inflation Adjusted Dollars
Actual Dollars
Constant 1997 Revenue
For the adjusted line, each year's receipts are expressed in 1997 dollars.
Source: MDOR Ann Reports, Drawn by LFD.

Chart 10

Share of Local Gov't and School Budgets Funded by Property Tax Under I-105

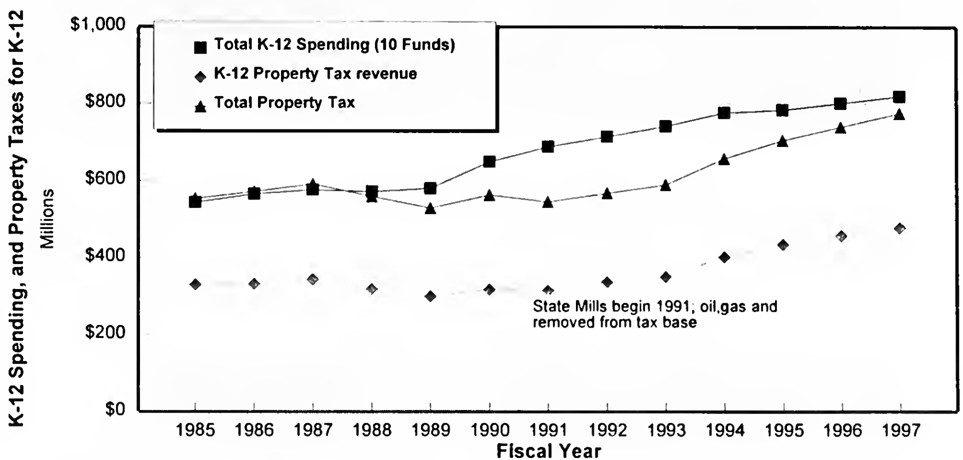


For Schools, Percent of all spending that is property tax includes state K-12 Property Taxes.
Source: MDOR Ann Reports, LGC-MSU; Drawn by LFD.

Chart 11

K-12 Spending and K-12 Property Tax Revenue

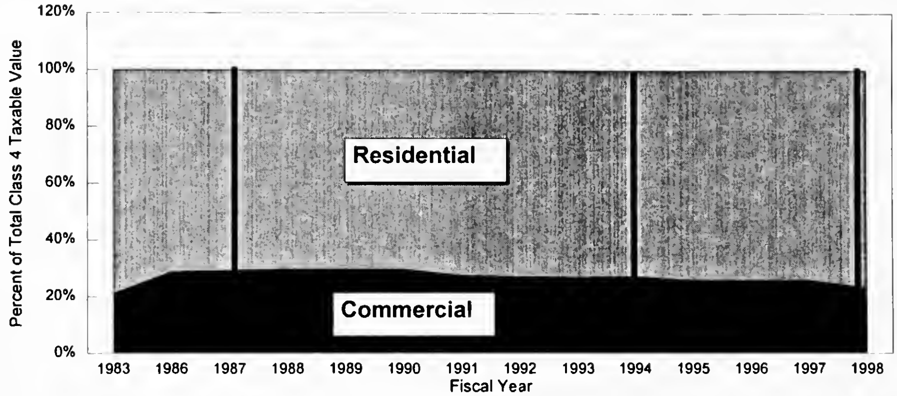
Fiscal 1985-1997



Source: MDOR Ann Reports, OPI Trustees Reports
Drawn by LFD

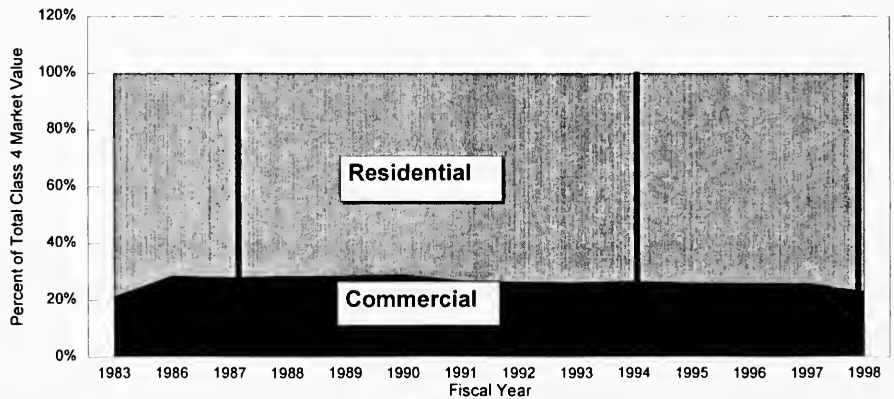
Chart 12

Commercial and Residential Taxable Value as a Percent of Class 4 Taxable Value
Fiscal 1983-1998



FY 1998 is projected TV in the absence of SB195
Vertical lines show fiscal year in which reappraisal occurred.

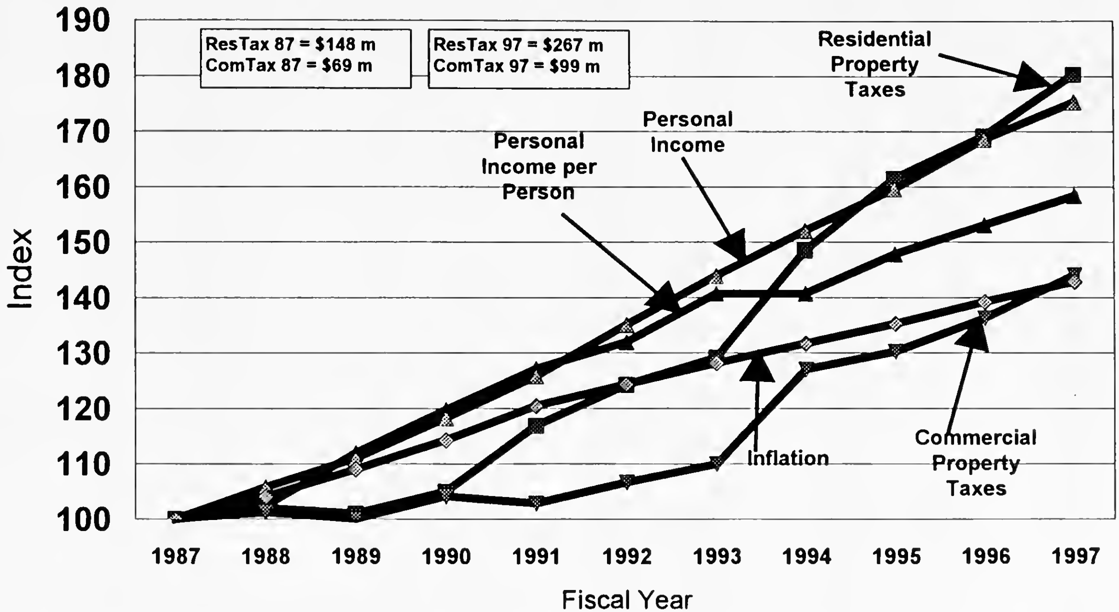
Commercial and Residential Market Value as a Percent of Class 4 Market Value
Fiscal 1983-1998



FY 1998 is projected MV in the absence of SB195
Vertical lines show fiscal years in which reappraisal occurred.

Residential and Commercial Property Taxes

Compared with Inflation, Income, and Income Per Person



Figures in boxes show property tax paid to all governments for Residential (ResTax) and Commercial (ComTax) for FY87 and FY97

Appendix to:
Taxation Graphics
Prepared for the Interim Property Tax Committee

Chart 1

- While total state and local taxes increased markedly between 1972 and 1997, nearly 400%, the **proportionate share** of total taxes represented by **property taxes** actually decreased by about 20%. The average annual rate of growth in total state and local tax revenue between 1972 and 1997 was about 5.68%.

Chart 2

- Between 1972 and 1997, CPI **inflation** amounted to about 285% (4.28% average annual growth). Total **property taxes** increased about 295% (4.43% average annual growth). Montana **personal income** increased by over 450% (6.38% average annual growth).

- While inflation, property taxes, and personal income had substantial growth over the past 25 years, **total taxes** as a percentage of income remained remarkably steady, and were actually 8% less in FY 1997 than they were 25 years ago.

Chart 3

- The **market value** of all property subject to taxation in Montana has increased from about $6 billion in 1972 to over $36 billion in 1997, a six-fold increase (at an average annual increase exceeding 6.6%).

- While the market value of property has increased steadily, the **taxable value** of property has been uneven and increased a relatively slow rate (about 2.5% average annual growth). Statewide taxable value in 1972 was slightly less than $1 billion and in 1997 was about $1.9 billion.

Chart 4

- There have been significant and substantial shifts in the composition of the **tax base** in the past 25 years. Agricultural land, which accounted for about ½ of statewide **market value** in 1972, accounted for only 1/8 of statewide market value in 1997.

- Homes and most businesses accounted for about 1/5 of total market value in 1972, but more than 3/5 of total value in 1997.

Chart 5

- As with market value, there have been significant and substantial shifts in the **tax base** as represented by **taxable value**. Since 1972, the proportionate share of statewide taxable value borne by utilities has nearly doubled (15.5% v. 28.4%) while homes/businesses share grew by about 1/3 (35.6% v. 47.7%).

- The ostensible "winners" of the tax base shifting have been agriculture, including livestock, a decline of 50% between 1972 and 1997 (18.2% v. 9.1%), and personal property, falling from over 1/5 of total taxable value in 1972 to about 1/7 of the total in 1997 (22.7% v. 13.9%).

Chart 6

- Changes in the proportionate shares of **property taxes paid** parallel changes in market value and taxable value. Homeowners/businesses and utilities are bearing an increasingly larger share of the total, while agriculture, including livestock, and personal property account for a decreasing share of the total.

Chart 7

- As recipients of property tax revenues, "schools" have been and continue to be the biggest player, consuming about 3/5 of the property tax pie. Schools' 60% take has remained fairly constant between 1972 (60.1%) and 1997 (63.8%).

- Shares of property tax revenue have decreased consistently for cities and counties between 1972 (36.7%, combined) and 1997 (29.4%, combined).

- The most significant change in consumers of property taxes have been special districts, i.e., everything from weed control districts to water quality districts to cemetery districts to library districts--and then some. In 1972, these entities accounted for about 3.2% of property tax revenue but more than doubled that (6.8%) by 1997.

Chart 8

- In nominal dollars, **property tax revenue** has increased steadily but gradually since the mid-1970s, at a rate of just under 3% annually (since FY 1976). Comparatively, statewide taxable value increased at an annual rate of about 2.5%. The rates of increase for both property tax valuation and for property tax revenue are substantially less than the rate of inflation over the same period.

Chart 9

- While property tax revenue has grown substantially in **nominal dollars** since the mid-1970s -- about $508 million. However, when adjusted for inflation, the amount of revenue in FY 1997 is nearly identical to the amount of revenue in FY 1976.

Chart 10

- Since the mid-1980s, shares of budgets expended by counties and by municipalities have consistently declined, from about 45% of total budgets in FY 1987 to less than 35% in FY 1996, a decrease of about 22%.

- Over the 11-year period, FY 1987 through FY 1997, the share of schools' budgets funded by property actually fell from about 60% of total expenditures in FY 1987 to about 45% in FY 1991, then gradually increased back to about 58% of total expenditures in FY 1997.

Chart 11

- Since 1985, property taxes devoted to K-12 schools has remained a fairly constant 60%+ of total property tax revenue. At the same time, total spending for K-12 schools has increased somewhat greater than property tax revenue has grown.

Unnumbered Chart

- The impression that homeowners are bearing an ever-increasing share of the property tax burden is borne out in this chart. Over the past 10 years, collections from residential property taxes (the top line) have grown significantly faster than inflation or collections from property taxes on commercial realty -- approximately double the rate. Residential property tax collections have also grown more rapidly than total personal income or per capita personal income, although the rates of growth have been relative close and substantially more robust than either inflation or the rate of growth in commercial property tax collections.

General considerations:

- Although it is not discernable from the information in Charts, the taxes on most property subject to taxation in 1997 were higher in nominal dollars than in 1972.

- From the information in Charts, no conclusion can be reached on changes to any individual property.

Tax base considerations:

Highly significant changes in the property tax base include:

- exemption of non-business personal property;
- exemption of business inventories, including most livestock less than 2-years old;
- exemption of automobiles and light trucks (now based on flat fees, not mill levies);
- exemptions for numerous types of business personal property; and
- exemption of oil, natural gas, and coal (now based on flat fees, not mill levies).

Statutory tax rate considerations:

Highly significant changes in statutory tax rates (in some states called "assessment ratios") include:

- the respective statutory tax rates applicable to nearly every type of property have declined over the past 25 years
- the taxable rate applicable to agricultural land *declined* from 33 1/3% to 3.816%;
- the taxable rate applicable to homes/businesses *declined* from 30% to 3.816%;
- the taxable rate applicable to (business) personal property *declined* from about 20-40% to 6%;
- the taxable rate applicable to heavy machinery/equipment *declined* from about 20-40% to 6%;
- the taxable rate applicable to railroads and airlines *declined* from 20% to less than 7%.

Miscellaneous considerations:

- For FY 1997, total statewide **taxable value** of all property subject to mill levies was $1.84 billion. By comparison, the **taxable value of vehicles** (cars/pickups) was $2.97 billion, an amount over 60% greater than the total taxable value of all other property subject to taxation.
- Between 1993 and 1997, the value of Class 4 commercial property increased on average about 25% (5.7% annually) while Class 4 residential property increased on average about 43% (9.35% annually).
- In 1986, the market value of railroads in Montana was $699 million and had a taxable value of $83.8 million. In 1996, the market value of railroads in Montana was $936 million, but the taxable value had declined by 25% to $63.3 million. This change was due in part to the federal 4-R Act and in part to legislative action resulting in declines in business property taxes.

APPENDIX C
CHRONOLOGY OF PROPERTY TAXATION STATUTES
1972 - 1997

The material contained in this appendix provides an overview of changes in property tax statutes since 1972. The statutory structure changes over the 12-year period due to class consolidations and proliferation, recodification, and other factors. Because of these changes, it is essential for the reader to recognize that the component types of property in any class of property may be different from one year to the next or one decade to the next.

Year	Class One	Class Two	Class Three
Pre-1972	Right of entry that is a property right reserved in land or received by mesne conveyance, devise or succession to enter land whose surface title is held by another to explore, prospect or dig for oil, gas or minerals. Tax Rate: 100% MV. Annual net proceeds of mines and mining claims. Tax Rate: 100%.	All household goods and furniture, ag tools and implements; gas and other engines, boilers, threshing machines; autos, trucks, power-driven vehicles; boats and watercraft; harness, saddlery and robes. Tax Rate: 20%.	Livestock, poultry and unprocessed products of both; stocks of merchandise, commercial furniture and fixtures. Tax Rate: 33 1/3%.
1977	Removed annual net proceeds of mines. Rights of entry remain the same. Tax Rate: 100% MV.	Annual net proceeds of all mines and mining claims except coal and metal mines. Tax Rate: 100%.	Annual gross proceeds of coal mines using the strip mining method. Tax Rate: 100%
1978	No change from 1977. Tax Rate: 100% MV.	No change from 1977. Tax Rate: 100%.	No change from 1977. Tax Rate: 100%.
1979	Right of entry that is a property right reserved in land or received by mesne, conveyance, devise, or succession to enter land whose surface title is held by another to explore, prospect or dig for oil, gas or mineral, and; annual net proceeds of mines and mining claims except coal and metal mines Tax Rate: 100%.	Gross proceeds of metal mines, underground coal mines, and coal strip mines. Metal mines taxed at: 3% Underground coal taxed at 33.3% Strip mined coal taxed at 45%	Agricultural land. Tax Rate: 30% of productive capacity.
1981	No change from 1979 Tax Rate 100%.	No change from 1979	No change from 1979 Tax Rate 30% of productive capacity
1983	Annual net proceeds of mines and mining claims, except coal and metal mines. Tax Rate: 100%.	No change from 1981	No change from 1981 Tax Rate: 30% of productive capacity.
1985	No change from 1983 Tax Rate 100%.	No change from 1983	No change from 1983 Tax Rate. 30% of productive capacity.
1987	Annual net proceeds of all mines and mining claims except coal, talc and metal mines. Tax Rate: 100%.	No change from 1985	Ag land; non-productive mining claims outside incorporated city limits. Claims valued as grazing land. Tax Rate: 30% of productive value.
1989	No change from 1987. Tax Rate: 100%.	Annual gross proceeds of all metal mines. Tax Rate: 3%.	No change from 1987. Tax Rate 30% of productive value
1991	Annual net proceeds of all mines and mining claims except coal, travertine, building stone and metal mines. Tax Rate 100%.	No change from 1989 Tax Rate 3%.	No change from 1989. Tax Rate: 30% of productive value.
1993	Annual net proceeds of all mines and mining claims except coal, travertine, building stone and metal mines. Tax Rate: 100%.	No change from 1991. Tax Rate: 3%.	Ag land; non-productive mining claims outside incorporated city limits, 20-160 acre parcels not eligible not eligible for ag land assessment, valuation and taxation. Tax Rate: 3.86%.
1995	Annual net proceeds of all mines and mining claims except coal and metal mines Tax Rate: 100%.	No change from 1993. Tax Rate: 3%.	No change from 1993. Tax Rate: 3.86%.
1997	Annual net proceeds of all mines and mining claims except coal and metal mines. Tax Rate: 100%.	Annual gross proceeds of all metal mines Tax Rate: 3%.	No change in property from 1995. The tax rate of 3.86% will be reduced .022% annually until the rate reaches 2.78%.

Historic Overview of Montana Property Tax System

Year	Class Four	Class Five	Class Six
Pre-1972	All land; improvements, affixed trailers and manufacturing machinery. Tax Rate: 30%.	Moneys and credits; poles, lines, transformers etc., owned by rural electric and telephone cooperatives; all unprocessed ag products. Tax Rate: 7%.	Moneyed capital and shares of banks. Tax Rate: 30%.
1977	Annual gross proceeds of underground coal mines. Tax Rate: 100 %.	Moneyed capital and shares of banks. Tax Rate: 30%.	Ag land. Tax Rate: 30% of assessed value.
1978	No change from 1977. Tax Rate: 100%.	Moneyed capital and shares of banks. Tax Rate: 30%.	No change from 1977. Tax Rate: 30% of assessed value.
1979	All land (residential and commercial property); golf courses owned by non-profit corporations. Real property taxed at 8.55%. Golf courses taxed at 4.275%	Rural telephone and electric co-ops; air and water pollution control equipment; truck campers, motorhomes, camp trailers owned by persons 60 or older; new industrial property, gasohol prod. property. Tax Rate: 3%.	Business inventories; unprocessed ag products except livestock and poultry products Tax Rate: 4%.
1981	No change from 1979, but added income thresholds for circuit breaker. Tax Rate: 8.55% for real property and 4.275% for golf courses	No change from 1979. Tax Rate: 3%.	Livestock, poultry and unprocessed products of both. All unprocessed ag products except perishable fruits and vegetables Tax Rate: 4%.
1983	No change from 1981. Tax rates remained the same.	No change from 1981. Tax Rate. 3%	Added items of personal property held for the purpose of renting or leasing Tax Rate 4%
1985	Removed non-profit requirement for golf courses. Tax Rates remained the same.	No change from 1983. Tax Rate. 3%.	No change from 1983 Tax Rate: 4%.
1987	No change in property listed in class. Tax Rate: 3.86%	Rural electric and telephone co-ops; air and water pollution control equip; new industrial property; property of research and development firms. Tax Rate: 3%.	Livestock; unprocessed ag products except producer held grain and perishable fruits and vegetables; items intended for lease or rent. Tax Rate: 4%.
1989	No change from 1987. Tax Rate: 3.86%.	No change from 1987. Tax Rate. 3%.	Removed ag products and added canola seed oil production property; malted barley production property to livestock and property maintained for rent or lease. Tax Rate: 4%.
1991	Included trailers and mobile homes to all real property. Tax Rate: 3.86%.	Added electrolytic reduction facilities and gasohol production property. Tax Rate: 3%.	Removed malted barley facilities No other changes. Tax Rate: 4%.
1993	No changes from 1991. Tax Rate: 3.86%.	No changes from 1991. Tax Rate: 3%.	Livestock; property for rent or lease; canola seed oil production property. Tax Rate: 4%.
1995	No changes from 1993. Tax Rate: 3.86%.	No changes from 1993. Tax Rate: 3%.	No changes from 1993. Tax Rate: 4%
1997	All land, improvements, including trailers, manufactured homes and mobile homes used as a residence. Golf courses and all improvements on land that is eligible for valuation, assessment and taxation as ag land, including 1 acre of real property beneath improvements. Tax Rate:3.86% dropping .022% annually until rate reaches 2.78%.	Rural electric and telephone cooperatives; air and water pollution control equipment; new industrial property; property used for gasohol production; research and development property; electrolytic reduction facility property. Tax Rate: 3%.	Livestock; personal property intended for lease or rent, canola seed oil production equipment; malted barely production equipment. Tax Rate: 4 %.

Year	Class Seven	Class Eight	Class Nine
Pre-1972	New industrial property; air pollution control equipment. Tax Rate: 7%.	Improvements to real property less than $15,000, owned by a widow. Tax Rate: 20%.	All property not included in any other class. Tax Rate. 40%
1977	Centrally assessed utility allocations after deductions for locally assessed property; all property not included in another class; large trucks and commercial trailers. Tax Rate:16%.	All ag tools, implements, machinery; gas and other engines, boilers and threshing machines; harness, saddlery and robes. Tax Rate: 13%.	Autos and trucks; commercial furniture and fixtures. Tax Rate: 13.3%.
1978	No change from 1977. Tax Rate: 16%.	Ag implements and machinery except large farm machinery; gas and other engines, boilers, threshing machines; harnesses, saddlery and robes. Tax Rate. 13%.	Autos; motor trucks; power-driven vehicles except motorhomes; motorcycles, aircraft, campers and trailers; commercial furniture and fixtures. Tax Rate. 13.3%
1979	Livestock, poultry and unprocessed products of both; rural telephone and electric providers serving less than 800 customers and 95% of customers within incorporated limits of a city respectively; electric transformers, meters, etc.; natural gas measuring equip.; compressor stations owned by centrally assessed utilities; tools and equipment for the repair of non-mining and manufacturing machinery. Tax Rate: 8%.	Ag implements and machinery; mining and manufacturing machinery; motorcycles; boats; light utility and boat trailers; aircraft, ATV's and snowmobiles; harness, saddlery and tack, all other machinery not included in another class. Tax Rate: 11%.	Autos, buses, trucks weighing less than 1.5 tons; stock, camping, travel trailers, 300 lb + truck toppers, motorhomes not in class 5; fixtures and furniture of commercial firms; X-ray, medical and dental equipment; CB radios and mobile phones. Tax Rate: 13%
1981	No change from 1979. Tax Rate 8%	No change from 1979. Tax Rate. 11%.	Removed camping trailers, travel trailers. Tax Rate: 13%.
1983	No change from 1981. Tax Rate: 8%.	Removed light utility and boat trailers, and snowmobiles. Tax Rate 11%.	Removed autos and motorhomes. Tax Rate 13%
1985	No changes from 1983. Tax Rate: 8%.	Removed motorcycles, boats, ATV's harness, tack and saddlery. Tax Rate 11%	No change from 1983. Tax Rate 13%
1987	Removed livestock and unprocessed ag products. Remainder unchanged. Tax Rate 8%	Ag implements, equipment etc.; mining and manufacturing equipment and machinery; all goods intended for lease not included in other classes; all trailers; trucks with rated capacity of greater than 1.5 tons. Tax Rate. 11%.	Buses and trucks with rated capacity of greater than 3/4 ton and less than 1.5 tons, truck toppers, furniture and fixtures of commercial firms; X-ray, medical and dental equipment; CB's and mobile phones. Tax Rate: 13%.
1989	No change from 1987. Tax Rate. 8%.	Buses and trucks with a rated capacity of 1 ton or more; 300 lb truck toppers; furniture and fixtures of commercial firms; X-ray, medical and dental equipment; CB's and mobile phones; cable TV; coal and ore haulers; theater sound and projection equipment; manufacturing and mining equipment; ag equipment and implements; all other property not listed in another class. Tax Rate. 9%.	Repealed
1991	No change from 1989. Tax Rate 8%.	No change from 1989. Tax Rate: 9%.	Centrally assessed property. Tax Rate: 12%.
1993	Rural phone and electric suppliers serving less than 800 customers and 95% of customers respectively within the limits of an incorporated city; electric transformers, meters, etc.; natural gas measuring and metering equipment; compressor station equipment of centrally assessed utilities; tools and equipment to maintain this property. Tax Rate 8%.	No change in property listed in 1991. Tax Rate. 9%.	Centrally assessed property. Tax Rate 12%
1995	No change from 1993. Tax Rate 8%.	No change in property listed. Tax Rate; 8%.	No change from 1993. Tax Rate: 12%.
1997	Property used to serve rural electric and telephone customers serving less than 95% and 800 customers within an incorporated city respectively; electric transformers and meters, etc.; natural gas measuring equipment; compressor station equipment not centrally assessed. Tax Rate: 8%.	Ag implements and equipment; mining and manufacturing machinery; equipment intended for rent or lease; special mobile equipment; commercial furniture and fixtures; X-ray, medical and dental equipment, CB's and mobile phones; broadcasting and transmitting equipment; cable TV systems; coal and ore haulers; theater sound and projection equipment; all property not included in another class except property subject to fees in lieu of taxes. Taxed at 7% for tax year 1997 and 6% for tax years beginning after December 31, 1997.	Centrally assessed property. Tax Rate: 12%.

Year	Class Ten	Class Eleven	Class Twelve
1977	Aerial, surface and portable ski lifts; manufacturing and mining equipment; camper trailers and truck campers. Tax Rate: 12%.	All land except ag land; all improvements; all trailers affixed to the land; all mobile homes. Tax Rate: 12%.	Boats and watercraft; aircraft; motorcycles; large farm machinery. Tax Rate: 11%.
1978	Aerial, surface and portable ski lifts; manufacturing and mining equipment; camper trailers and truck campers. Tax Rate: 12%.	All land except ag land; all improvements; all trailers affixed to the land; all mobile homes. Tax Rate: 12%.	Boats and watercraft; aircraft; motorcycles; large farm machinery. Tax Rate: 11%.
1979	Radio, TV broadcasting equipment; cable TV; coal and ore haulers; Centrally assessed utility property allocations after deductions of locally assessed property; trucks weighing 1.5 tons or greater; trailers not included elsewhere; theater projectors and sound equipment; all property not included elsewhere. Tax Rate: 16%.	Centrally assessed property. Tax Rate: 12%	unused class
1981	No change from 1979. Tax Rate: 16%.	No change from 1979. Tax Rate: 12%	unused class
1983	No change from 1981. Tax Rate: 16%.	No change from 1981. Tax Rate: 12%	Trailers and mobile homes. Tax Rate: 8.55%.
1985	No change from 1983. Tax Rate: 16%.	No change from 1983. Tax Rate: 12%	No change from 1983. Tax Rate: 8.55%.
1987	Removed reference to trailers, trucks, and centrally assessed utility allocations. Radio and TV broadcasting systems; Cable TV; theater projectors; ore and coal haulers; all other property still present. Tax Rate: 16%	Centrally assessed property. Tax Rate: 12%.	Property in class unchanged Tax Rate: 3.86%.
1989	Repealed	No change from 1987. Tax Rate: 12%.	No change from 1987. Tax Rate: 3.86%.
1991	All timber land 15 acres or more capable of commercial production. Tax Rate: 4%.	Improvements on land eligible for ag assessment, valuation and taxation. Tax Rate: 80% of Class Four rate.	Railroad and Airline Property. Tax Rate: 12%.
1993	No change from 1991. Tax Rate: 4%.	Repealed	No change from 1991. Tax Rate: 12%.
1995	No change from 1993. Tax Rate: 4%.	unused class	No change from 1993. Tax Rate: 12%.
1997	All forest lands. Tax Rate: .79% of productive value.	unused class	Railroad and Airline Property. Taxed at the same rate as other industrial property; generally 12%.

Year	Class Thirteen	Class Fourteen	Class Fifteen
1977	Incremental increase in value of real estate produced by repairing, maintaining, or improving property. Taxed at: 2.4% the first year. 4.8% the second year. 7.2% the third year. 9.6% the fourth year. 12% the fifth year.	Poles, lines, transformers, etc., of telephone providers serving less than 800 persons within the incorporated limits of a city; electric poles, lines etc., serving less than 95% of customers in an incorporated city; and livestock, poultry and the unprocessed products of both. Tax Rate: 8%.	Improvements, mobile homes and trailers owned by widows. Value not exceeding $35,000. Tax Rate: 6%.
1978	Incremental increase in value of real estate produced by repairing, maintaining, or improving property. Taxed at: 2.4% the first year. 4.8% the second year. 7.2% the third year. 9.6% the fourth year. 12% the fifth year.	Poles, lines, transformers, etc., of telephone providers serving less than 800 persons within the incorporated limits of a city; electric poles, lines etc., serving less than 95% of customers in an incorporated city; and livestock, poultry and the unprocessed products of both. Tax Rate: 8%.	Mobile homes and trailers not exceeding $35,000 in market value. Tax Rate: 6%.
1979	unused class	unused class	unused class
1981	unused class	unused class	unused class
1983	unused class	unused class	unused class
1985	All timberland 15 acres or more capable of commercial production. Tax Rate: 30% of productive cap.	Improvements on land eligible for ag assessment, valuation and taxation. Tax Rate: 80% of Class Four rate.	Railroad Property. Tax Rate: 12%.
1987	No changes from 1985. Tax Rate: 30% of productive cap.	No changes from 1985. Tax Rate: 80% of Class Four rate.	No changes from 1985. Tax Rate: 12%.
1989	No changes from 1987. Tax Rate: 30% of productive cap.	No changes from 1987. Tax Rate: 80% of Class Four rate.	No changes from 1987. Tax Rate: 12%.
1991	unused class	unused class	unused class
1993	unused class	unused class	unused class
1995	unused class	unused class	unused class
1997	unused class	unused class	unused class

Year	Class Sixteen	Class Seventeen	Class Eighteen
1977	Business inventories; and mobile machines valued as heavy construction equipment. Tax Rate: 4.2%.	All unprocessed agricultural products except livestock and poultry. Tax Rate: 3.5%.	Residence of veterans or disabled veterans; all rural co-ops; air pollution control equipment; and new industrial property. Tax Rate: 2.8%.
1978	No change from 1977. Tax Rate: 4.2%.	No change from 1977. Tax Rate: 3.5%.	No change from 1977. Tax Rate: 2.8%.
1979	Repealed	Repealed	Repealed
1981	unused class	unused class	unused class
1983	unused class	unused class	unused class
1985	Watercraft; ATV's; harness, saddlery and tack. Tax Rate: 11%.	unused class	unused class
1987	Harness, saddlery and tack; all property used for non-commercial purposes but not real property not included elsewhere. Tax Rate: 11%.	Airline property. Tax Rate: 12%.	Non-productive mining claims. Tax Rate: 30%.
1989	Repealed	No changes from 1987. Tax Rate: 12%.	No changes from 1987. Tax Rate: 30%.
1991	unused class	Repealed	Repealed
1993	unused class	unused class	unused class
1995	unused class	unused class	unused class
1997	unused class	unused class	unused class

Historic Overview of Montana Property Tax System

Year	Class Nineteen	Class Twenty
1977	Annual gross proceeds of metal mines. Tax Rate: 100%.	unused class
1978	No change from 1977. Tax Rate: 100%.	Pickup campers; camp trailers; fifth wheel trailers owned by persons 60 years of age. Tax Rate: 6%.
1979	Repealed	Repealed
1981	unused class	unused class
1983	unused class	unused class
1985	unused class	unused class
1987	Non-productive real property less than 20 acres precluded from development. Tax Rate: 2%.	Real and personal property integrally related to a single unit and devoted to timber or ag production. Tax Rate: 3.86%
1989	No changes from 1987. Tax Rate: 2%.	No changes from 1987. Tax Rate: 3.86%
1991	unused class	unused class
1993	unused class	unused class
1995	unused class	unused class
1997	unused class	unused class

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